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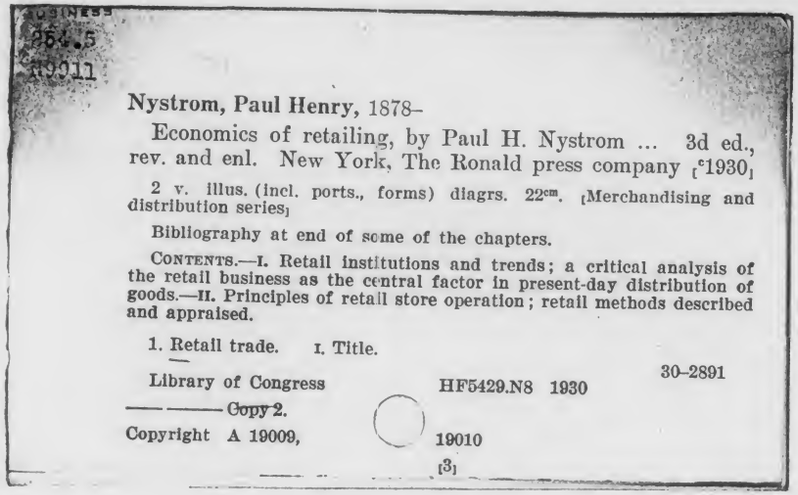

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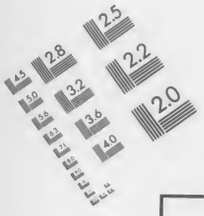

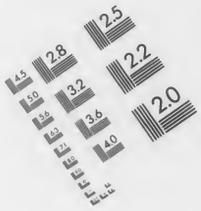


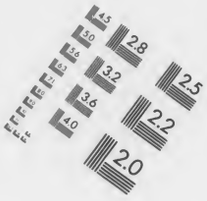


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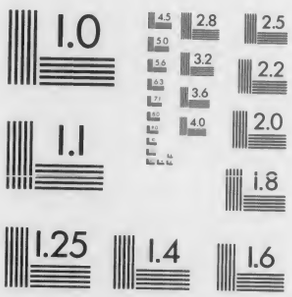


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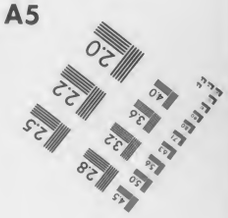

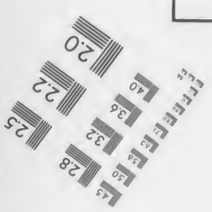


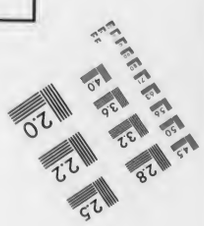


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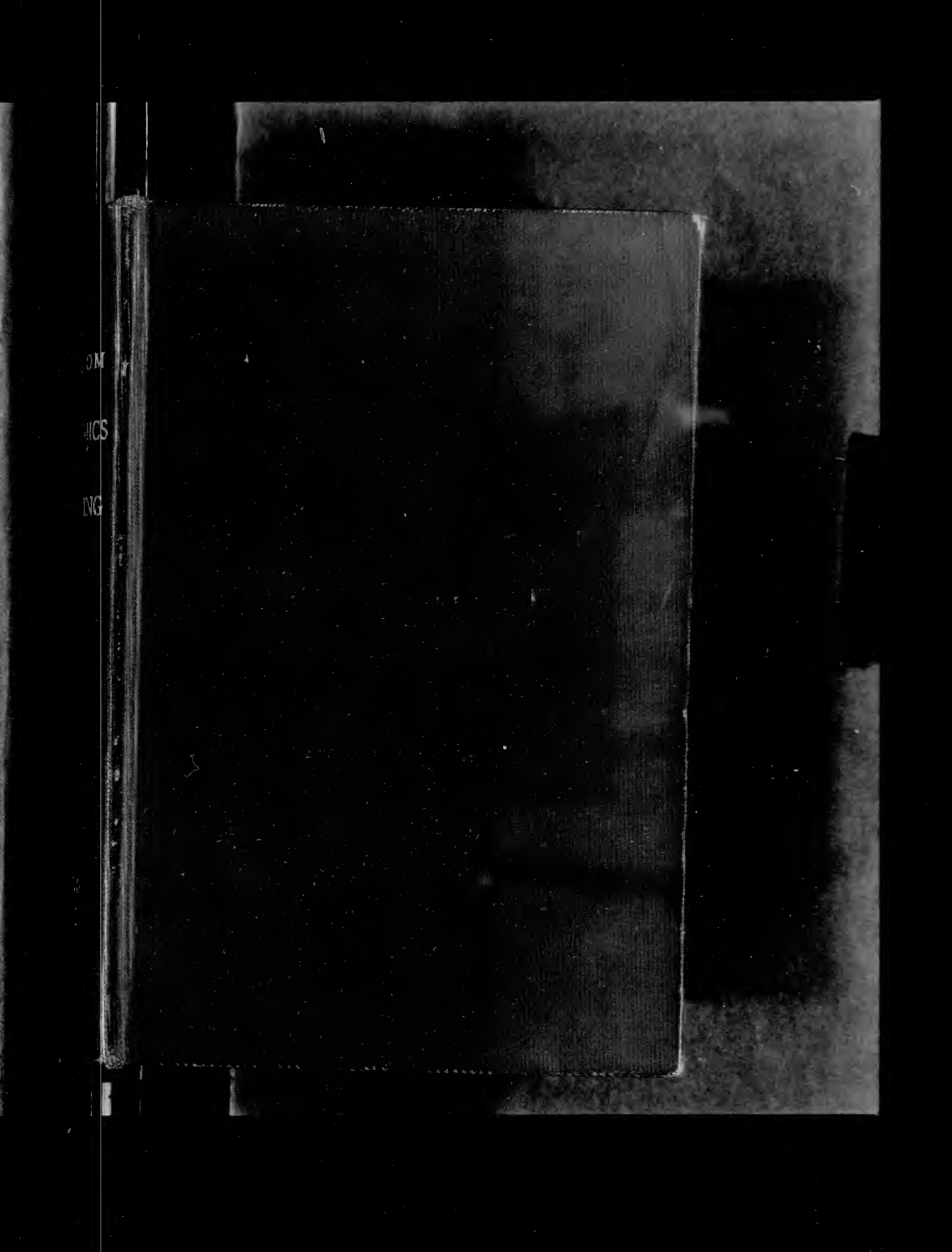

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# ECONOMICS OF RETAILING

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VOLUME I

## RETAIL INSTITUTIONS AND TRENDS

A Critical Analysis of the Retail Business as the Central Factor in Present-Day Distribution of Goods

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# PREFACE

Since the "Economics of Retailing" was first written, revolutions have occurred in the entire system of distributing goods, and nowhere have there been greater changes than in retailing. Very few goods are distributed in the same manner as they were in 1915 or even in 1919. In those days production, broadly speaking, was the source of most of the difficulties that business men had to face. In the intervening years the problems of production have gradually been displaced from the center of executive attention by the difficulties of marketing. This shift of emphasis has affected every phase of the retailing business.

The present work is not merely a revision of earlier editions; it is a complete rewriting, in which scarcely a sentence from the older work remains. Some parts of the earlier book were, by good chance, prophetic of developments that have since taken place. Others substantially represented facts and principles that still hold good. On the other hand, much of what was presented in the first two editions, while properly applicable at the time of writing, is now obsolete. The new developments and the changed situation in the retail trade demanded a thorough restatement.

Moreover, during the past decade of intimate contacts with and continuous study of the retail business, the writer has gained a wealth of new information, many new viewpoints, and a broader basis of interpretation. In the new work the effort has been made to incorporate the results of these added opportunities for observation and experience, and to present an up-to-date manual of retailing, practical throughout.

As it proved impossible to give such a comprehensive treatment within the compass of one volume, the new "Economics

of Retailing" is offered in two volumes, each complete in itself. Volume I deals with retail institutions, their origins and growth, and their trends and meaning in present systems of distribution of goods. Volume II presents the principles of store operation, from the standpoint of sound, practical business.

The present work, accordingly, seeks to give in plain and simple style a comprehensive account of retailing as it is carried on today. It covers both large stores and small stores. It analyzes the specific difficulties that now confront retailers. It gives special attention to the changes that are going on, such as the newer methods in buying, in store operation, and sales promotion. It discusses the pros and cons of cooperative or group activity, of voluntary retail associations and chains, of mergers and combinations. It suggests ways and means of progress and encourages intelligent use of resources available to retailers.

Such a work, it is believed, should be of interest to many people concerned in one way or another with the retail field. The experienced, successful retailer should find in such a systematic outline of the current trends of the business suggestions for further constructive steps. For young executives, students, and general business readers, the facts and examples here presented in full detail, in plain and simple terms, should be of aid not only in learning how the retail business of today is conducted but also in acquiring a proper viewpoint and a balance based on clear ideas. Wholesalers and manufacturers, sales managers and advertising managers, struggling with the problems of the changes now going on in the retail field, should find such a survey enlightening and helpful. Bankers and investors who have entered retailing through stock ownership or otherwise, may find it useful in obtaining a clear-cut picture of what retailing really is and what conditions are necessary to make the retail business profitable.

Certain features in this work to which the reader's attention may be called are the following: (1) The inclusion of numerous pictures of founders of the retail business, some of which have never before been published. (2) A treatment of retailing as an institution and a business force with a rich historical background, a knowledge of which is necessary to a proper comprehension of present-day institutions and practices. Two chapters are included which deal directly with the origins of the retail business in past history. (3) Particular stress upon the significance and importance of present trends in retailing as the most important consideration in present-day study of the subject.



The writer wishes to express his indebtedness in general here and by special references throughout the text for the opportunity courteously extended by the publishers of other books and particularly of trade and business papers, and by the officers of the great retail trade associations for the use of illustrations and examples included in this book.

PAUL H. NYSTROM.

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# ECONOMICS OF RETAILING

# CHAPTER I

## PLACE OF RETAILING IN THE DISTRIBUTION OF GOODS

The term "distribution" as used here covers all activities of transferring goods from producers to consumers, including changes in ownership, transportation, storage, grading, packing, display, advertising, and selling.

**Producers.**—The extent of the problem of distribution may be made clear by an explanation of who and where producers and consumers are, using the United States as the example. The first step in distribution is the assembling of products from farms and factories. There are about 6,400,000 individual farms and 196,000 factories of all kinds, of which probably about one-half produce goods for ultimate consumers' use. In addition to the products of domestic origin there are, literally, countless items, imported from all parts of the world, that enter into the consumption of the American people.

Next, these goods must be placed at the disposal and choice of the consumers, wherever they are located, for the final use for which they were made. It is the work of distributors to gather up the products of farms and factories and to pass these on to consumers wherever they may be.

**Consumers.**—Everybody is a consumer. Taking the United States as a whole, there are 120,000,000 people, scattered over 3,000,000 square miles of territory, living in cities, towns, villages, hamlets, and country. Of these, 51% live in nearly 3,000 cities of over 2,500 population. Another 12% live in 12,900 incorporated villages under 2,500 population, and still another 4% live in 8,100 unincorporated villages over 250

population. Another 3% or 4% live in the 100,000 little hamlets under 250 population and 29% make up the farming population. Over 70% of the population of this country live in cities and villages. By the time the census of 1930 is taken the number of people living in cities and villages may have risen to 75% of the total population.

**Trading Centers.**—The country population, for the most part, supplies its wants from the retail institutions located in the towns. By far the larger part of the retail trade in such lines as clothing, shoes, millinery, hats, underwear, jewelry, furs, and home furnishings is done in the 3,000 cities over 2,500 population. In fact certain studies of trading areas in the United States have resulted in estimates that nearly three-fourths of the entire retail trade of the country in all consumers' goods other than foods is done in less than a thousand principal cities. It is probable that since the advent of the automobile and good roads there is scarcely a family that lives more than two hours' travel from some one of these cities. People buy foods and convenience goods of low unit cost in nearby stores but go to the larger centers for clothing, home furnishings and other goods of high unit values.

Retail stores, as we shall see in a later chapter, tend to cluster together, forming trading centers. The commonest groupings or clusters are usually composed of stores selling groceries, meats, and other foods, drug stores, hardware stores, and stores offering general lines of merchandise. In each of the larger cities there is more than one such trading center. In a few of the largest cities there are scores of trading centers. For example, in greater New York and its trading area, including a 50-mile radius from the heart of the city, there are approximately 500 distinct trading centers.

Finally, it must be borne in mind that a part of the problem of distribution is the fact that every consumer is a separate, definite personality with particular wants, ideas, and habits



affecting consumption. Ultimately each consumer must be satisfied as effectively as possible. Such is the work of distribution.

**The Usual Channels of Distribution.**—The usual channels of distribution vary somewhat according to the products but may be illustrated by the following cases:

Fruits and vegetables are commonly sold by producers to local buyers who in turn ship their goods to wholesalers in the larger markets. Sales are made by wholesalers to jobbers and they in turn make their sales to retailers who finally supply the consumers.

Fresh meats pass through similar channels. Cattle raisers make their sales of stock to local buyers who in turn sell to the packing houses. The larger packing houses distribute through branch houses which in turn sell to retail meat dealers who take care of the requirements of consumers.

Manufactured groceries are usually sold by the producers either to brokers or directly to wholesalers who in turn sell to retailers. A number of large manufacturers each making many consumer products sell directly to retailers. Still other manufacturers, particularly of branded goods, make their own sales to wholesalers but help stimulate the demand from retailers by means of specialty salesmen who visit the retail trade.

Dry goods, notions, and small wares follow approximately the same types of channels as groceries. Manufacturers sell to wholesalers who in turn sell to retailers. Other manufacturers with larger lines sell direct to retailers.

Clothing, for both men and women, is generally sold directly to the retailer by the manufacturer, although there is a limited amount of wholesaling in this field.

**Variations in Channels of Distribution.**—There are a great many exceptions to and variations in the foregoing channels. Manufacturers often sell their products direct to chain stores, mail order houses, and department stores. In such marketing the wholesaler is eliminated. In a few instances

manufacturers sell direct to consumers through house-to-house canvassers, by mail, or by establishment of their own retail stores. Any attempt to illustrate all of the channels through which goods find their way from producers to consumers results in a very complicated diagram.

**Examples of Distribution of Goods.**—As a concrete illustration of the functions performed in distribution, we may take the marketing of fruits and vegetables in a great metropolitan center such as New York. At the time of present writing, this city consumes about $300,000,000 worth of these products at retail prices per year.

The metropolitan area making up greater New York contains nearly 10,000,000 people and about 500 trading centers. Located in this area are over 18,000 grocery and food stores of which approximately 10,000 handle fruits and vegetables. There are, in addition, about 3,500 fruit and vegetable stores and 14,000 restaurants and eating places offering a market for fruits and vegetables.

There is also a considerable amount of distribution of fruits and vegetables through hucksters and peddlers. There are over 4,000 hucksters' licenses in greater New York alone and not less than 7,500 pushcart dealers who make their sales from two-wheeled carts in certain parts of the city.

The distribution system for fruits and vegetables, therefore, consists of not less than 30,000 outlets in metropolitan New York. To supply this number of retail outlets there are at least 600 jobbers, of whom about 150 are located in downtown New York in the vicinity of what is known as the Washington Market. There are 115 in Brooklyn in what is known as Wallabout Market. There are at least 100 in Harlem, 80 in mid-New York near the Gansevort Market, about 50 in Newark, New Jersey, and an estimated 135 scattered over other parts of the area. These 600 jobbers for the most part supply the 30,000 odd retail outlets already mentioned.



Jobbers of fruits and vegetables are in turn supplied by wholesalers of whom there are in greater New York about 250. Most wholesalers are located in a downtown New York section known as the wholesale market for fruits and vegetables. The wholesalers receive and handle about 90% of all of the fruits and vegetables that come into the New York market. Some idea of the volume of this business may be obtained from the statement that not less than 200,000 freight-car lots of fruits and vegetables are shipped into New York annually.

The functions of these various classes of dealers are as follows: The wholesalers buy in carload lots and resell in smaller and more suitable quantities to jobbers. The average sale in fruits and vegetables to a jobber runs about one-sixteenth of a carload. The jobber in turn finds a market for his purchase among the retailers constituting his customers, each of whom takes generally not more than one case, basket, or barrel, so that the sixteenth of a carload may be divided among 20 retailers.

The retailer in turn must sell these fruits and vegetables to consumers who, according to the general custom in New York City, purchase in 21- to 25-cent quantities. The purchase of the single case from the jobber is retailed to about 24 customers.

The original carload handled by the wholesaler passes from the wholesaler to about 16 jobbers who in turn sell to 320 odd retailers, who in their turn make sales to about 7,680 retail customers. Thus for each carload there are on the average about 8,016 transactions in which there is some degree of salesmanship exercised and a bargain concluded. Multiplying the total number of car-lots, averaging over 200,000 per year, by the number of transactions of purchase and sales per carload, amounting to 1,603,200,000, gives a dramatic representation of the importance of the marketing and distribution functions in a large city.

All these functions carried on in New York with respect to

fruits and vegetables are similarly carried on with respect to manufactured groceries, meats, dry goods, apparel, shoes, millinery, home furnishings, and so on. The same functions are carried on similarly, in every other city, village, and hamlet in the country.

The distribution of fluid milk is another striking example of the development of a system for carrying a product from the producers to the consumers. Again using metropolitan New York as the example, there are more than 60,000 dairies, scattered over an area with a radius of not less than 500 miles, producing milk to take care of the consumption demands of nearly 10,000,000 people located in the metropolitan area.

The annual consumption of milk in this area is about 1,250,000,000 quarts per year. This supply comes to New York from over 800 milk shipping points, at the rate of from 100,000 to 140,000 cans per day, each can holding 85 pounds or 40 quarts of milk.

Milk is a highly perishable product. Nearly 10,000,000 people expect fresh, sweet milk for breakfast every day, and the system of distribution must naturally provide for prompt shipment and disposal to consumers. Nearly the entire milk supply for New York comes in by rail. It is received at large milk depots and pasteurizing plants and then is redistributed by truck to the various parts of the metropolitan area. Some of these truck hauls, as for example, over into Long Island, Queens, Bronx, and Westchester counties run as high as 28 miles. The truck loads are distributed to supply depots and dealers who in turn must continue the distribution to the homes of the people.

Less than 20% of the total amount of milk sold in New York is distributed in bottles, about 80% is sold from cans, but the tendency is toward increased sale of milk that is bottled.

Some additional knowledge of the problem of distribution of a commodity such as milk may be gained by consideration of the fact that production varies from season to season as



does also consumption. Production of fluid milk is highest in June and declines to a low point in December. The average production per dairy in June is about 260 pounds per day, whereas it is only 140 pounds, a little over one-half as much, in December. On the other hand, while consumption of milk falls off somewhat in the winter time, the variation in consumption is not so great as that of the production of the dairies, so that the distribution system for milk must reach out farther and take in more dairies through the winter time than during the summer. It takes 15,000 more dairies to supply New York's demand for milk in December than it does in June. These added dairies serving New York during the winter time are forced to find other markets for their milk supply during the summer. Many of them then sell their milk to creameries, cheese factories, and condenseries.

There are also other important variations in the consumption of milk besides those caused by change in seasons. Hot weather always causes the demand for milk to rise rapidly. Meeting this increased demand is one of the keenest problems in milk production and distribution. Weather conditions are carefully studied by milk distributors. Weather bureau predictions are followed carefully and milk shipments regulated accordingly.

The demand for milk also varies according to the days of the week and is especially affected by holidays, week-ends, Jewish holidays, and special events. When any considerable part of the people go out of town for a week-end or a holiday, such as Labor Day, naturally the demand for milk declines very abruptly.

The consumption of cream, buttermilk, and butter also varies considerably from one season to another. Cream consumption rises to a high point about June 1 and then declines very rapidly during July and August but rises again in September. The variation in the consumption of cream is greater than for milk. Buttermilk is largely a hot weather drink; fully

three times as much is demanded and used by consumers in summer as in winter. Consumption of milk and cream is heavier on Sunday than any other day in the week and is lightest on Saturday. The sale of cream also runs about twice as high on Sunday as any other day. The sale of cream likewise increases greatly on days preceding Thanksgiving and Christmas because of its use in cooking and cake making at those times.

All of these problems of consumption must be met by the distribution system. Season, weather, the habits of the people, must be given the utmost consideration.

**Functions of Retailing.**—Retailing is the last step in the distribution of goods to consumers. There are seven specific requirements for successful operation of a retail business. All seven are absolutely necessary. Competition centers around all of them. These seven factors are as follows:

1. *Accessibility to consumers,* that is, convenience of location. This can be defined only in relation to the type of goods offered for sale, the habits of the people, and the location of other stores.

2. *A satisfactory trading place*—a store that is clean, light, well-ventilated, sanitary, easy to enter, orderly, attractive to the eye, and arranged for easy shopping.

3. *Suitable stocks of merchandise* offering an opportunity for consumer choice, including adequate assortments in proper sizes or quantities, desirable quality, dependability, suitable styles in line with current fashions and at prices which customers expect to pay.

4. *Service* offered and rendered to customers. There is considerable variation in types of service rendered by different types of stores, extending from credit granting, delivery, use of telephones, return and exchange privileges, to cash and carry or even self-service. Some customers prefer full service, while others are content with less or none at all. Promptness of attention and dispatch in completing the transaction as well as safe and neat packaging of goods are elementary but important services required in every type of store.



5. *Personal relations* of the store employees toward customers, including not only promptness of attention but also courtesy, interest, friendliness, and honesty.

6. *Reasonable prices* are, and must always be, an important factor weighed not only against the other factors the store has to offer but against competition as well.

7. *Sales promotion* includes all methods and devices for giving the public information about the goods and service offered. It includes diligent and effective use of display, advertising, and salesmanship.

These seven requirements are fundamental to successful operation of a retail store. Providing these requirements effectively and at the same time economically, constitutes good management in retailing. Good management prevents leaks and wastes and secures adequate results from expenditures. Proper performance of each of the seven functions of retailing is the purpose and end of good management.

Failures in retailing are invariably due to faults in some one or more of these seven requirements, such as: wrong location; unsatisfactory store; merchandise which is not wanted; service policies that are not satisfactory to consumers, or, if desired by some, are not desired by enough to support the store; unpleasant, discourteous, or dishonest store people; prices too high; and inadequate or ineffective sales promotion.

Failure to provide any of the foregoing conditions—allowing leaks or wastes in operation, careless buying, deterioration in goods, unwise credits, expenses out of line with sales, starting with insufficient capital, inadequate experience or personal unfitness for the work—all result in failure to perform the functions of retailing in an effective, economical way, and final loss to retailers themselves.

The retail store that can best fulfil these seven requirements

is best fitted to survive. Every innovation in retailing is a direct effort at improvement of one or more of these points. Mail order houses give customers in villages and country a greatly improved and extended list of goods to select from, liberal policies of guarantee and exchange, courteous correspondence, and reasonable prices. Department stores offer the public great convenience in central location, many lines of merchandise under one roof, extensive lines of merchandise to choose from, liberal service policies, and standard fixed prices.

The chain store system likewise aims at fulfilling these seven requirements in as satisfactory a way as possible. The rapid growth of the chain idea attests its success in accomplishing this purpose.

**Classes of Retailers.**—Retail stores may be classified according to lines of goods handled, services rendered, territory served, and ownership or control. Such classifications have many uses. Classification in general helps to make the subject clearer, in this case, to make the manifold variations of retailing more intelligible. A classification by ownership may be used as a basis for tracing the tendencies toward consolidation or concentration. The classification by lines of goods handled or by services rendered represents the points at which stores come into direct contact with the consuming public. Both indicate the wide variety of retail stores with which consumers come in contact and the wide variety of goods and of services wanted by consumers.

Classified by Goods Handled. According to merchandise carried, retail institutions may be classified in the familiar way as groceries, meat markets, dry goods stores, drug stores, hardware stores, furniture stores, and so on. These stores or shops are usually, although somewhat inaccurately, called one-line stores. Their distinguishing characteristic is the fact that they carry limited lines of related goods. The U. S. Bureau of the Census of Occupations lists 47 distinct varieties of retail



shops classified in this way and adds a final "Miscellaneous" group in which many minor lines of retailing are bunched together. There are probably more than 100 distinct types of retail stores actually in existence.

The classification of retail stores by kinds of goods carried also includes general merchandise stores, department stores, and specialty shops.

The *general merchandise store* is the old-time typical small-town retail institution selling groceries, dry goods, apparel, farm equipment, and other lines of merchandise needed by country and village trade. The general merchandise store is giving way to the departmentized store on the one hand and to one-line or specialty shops on the other.

The *department store* may be considered either as a general merchandise store enlarged and subdivided into merchandise departments or as several one-line specialty shops brought together under one roof.

The term, *specialty shop*, is usually applied to a store that handles but a limited line of goods such as women's apparel, accessories, millinery, or shoes. The term distinguishes this type of retail store from department stores which carry a great number of lines of goods. At what size a specialty shop ceases to be such and begins to be a department store cannot easily be defined. In common usage a retail store with 20 or more departments dealing in apparel, dry goods, and general home furnishings may certainly be called a department store, whereas a retail store with less than a half-dozen departments can ordinarily be called only a specialty shop. Between these extremes one may find the two terms applied rather loosely and indiscriminately.

There is a growing tendency for departmentization or classification of merchandise. A large number of so-called single-line stores and specialty shops are taking on more and more of the character of department stores; thus, a leading

drug store has 14 departments, a well-known grocery store has 8 departments, and a successfully operated women's apparel shop divides its merchandise and merchandise operations into 6 departments.

Classified by Services Rendered. According to services rendered, retail institutions may be classified as (automatic vending, self-service, cash and carry, limited service, and full service stores.) This classification may also serve to cover such varieties of retail stores as ("drive-in markets," "rolling stores," house-to-house selling or canvassing, telephone selling, and mail order houses.)

*Automatic vending* includes the familiar penny gum machines and extends to such institutions as "automat restaurants." Cigars, cigarettes, confectionery, soft drinks, and an ever-widening list of other items are widely sold through vending machines. The mechanical "Robot" of recent invention sells its merchandise and completes each transaction with a phonographic "Thank you." It is believed that automatic vending offers possibilities of extensive development in the future. There are some who go so far as to say that automatic vending will absorb a good share of the retail business within staple lines within the next few years.

*House-to-house or direct selling* is retailing but of quite a different type from that carried on in retail stores. There are two methods of this form of selling, namely, peddling and canvassing. The peddler or huckster goes from house to house or from customer to customer, solicits purchases, and makes immediate delivery from the pack that he carries, from his push-cart, his wagon, his truck, or his fancy "rolling store" on wheels. The canvasser solicits orders but does not deliver merchandise sold until a later date. The peddler carries his stock with him. The canvasser carries only a sample or a prospectus to show to the customer from whom he hopes to receive an order for future delivery.



The *mail order house* is a type of retail institution which takes its name from the fact that its business is secured by advertising, through circulars and catalogs, nearly always sent through the mail. Orders are likewise filled and shipped by mail, express, or freight.

*Self-service stores* of the "Piggly Wiggly" or "Groceteria" type, cash and carry stores, and stores that give varying degrees of service in such things as charge accounts and deliveries, are probably familiar to all readers. "Drive-in markets" are recent developments permitting motorists to drive into the market, or store, shop, and make purchases without leaving their cars. Each of these classes of retail stores will be fully described in later chapters.

Classification by Territory Served. According to location or territory served, retail stores may be classified as:

1. Small-town stores, located in villages and hamlets of small population.
2. Rural center stores, which may be located in small or medium-sized towns, but which draw a trade from a wide radius.
3. Central large city stores, usually department stores or specialty shops, drawing trade from large populations scattered over wide territories. Much of such trade comes from transients.
4. Suburban stores, located in shopping or trading centers in suburbs surrounding larger cities.
5. Neighborhood stores, located outside of the trading and shopping centers in the resident districts of the larger cities. Neighborhood stores ordinarily draw their trade from people living close at hand.

Classified According to Ownership. According to ownership, retail institutions may be classified as (independent stores, branch stores, chain stores under central ownership and control, chains made up of independent stores tied together

by contracts or licenses and in some degree centrally controlled but not centrally owned, and consumers' cooperative stores.

The independent store is a single store owned by an individual, a partnership, or a corporation organized as a unit to conduct a retail business and without other dominating affiliations or functions.

Branch stores are retail stores owned by factories or wholesale houses conducted as outlets for their own goods or for the purpose of carrying on experimental sales work. Many industrial concerns, mining companies, factories and saw-mills, located at a distance from good trading centers conduct retail stores for their employees. These are known as industrial stores.

A chain store system, technically, is two or more stores owned and operated as a unit. Chains may obviously be owned by individuals, partnerships or corporations. They may be engaged solely or primarily in the retail distribution of goods or may be branch outlets of manufacturers or wholesalers.

In recent years chains made up of unit stores independently owned but in varying degrees centrally controlled and managed, have come into existence. Such aggregations are held together by contracts or by licenses. To this classification the term "voluntary chains" has been applied. Such organizations are in some cases groups of retailers without other affiliations. In other cases the groupings are made with wholesalers or even manufacturers. In still others the contractual arrangements are made with private business interests established to organize such groups.

Consumers' cooperative stores differ from the foregoing in that the ownership is vested in a society of consumers rather than individuals, partnerships, and corporations seeking purely private gain. The organization is usually corporate, but participation in profits is usually made on the basis of purchases of the members rather than on the amount of capital held by each.



In the following chapters each of these types of retailing institutions will be fully described, their operations analyzed, and trends of development indicated.

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# CHAPTER II

## THE CONSUMER

**The Rule of the Consumer over Retailing.**—The function of the retail store is to provide its customers with the goods they want—when, where, and how they want them. Efficiency in retailing consists in furnishing this service satisfactorily and economically. This service must be satisfactory to the consumer in order to gain his goodwill, and it must be economical in order that it may not cost the consumer any more than is necessary. The concerns that can perform this service most economically are able to reap the greatest net profits. Progress in retailing should lead continually to better and better service at lower and lower costs to consumers.

**Power of the Consumer.**—The consumer ultimately determines what the retail store and its service shall be. What may seem very satisfactory and most economical to the retailer, may not be at all satisfactory to the consumer. The best-planned system of retailing from a theoretic standpoint might not be suitable for a given community simply because the consumers there might not be ready to appreciate it as such. There must be development on both sides in order that the system of distribution may progress. The consumers' point of view is fundamental. It may be changed and is constantly changing, but unless the retailer is able to make his business accord with it, he stands little chance of continuing in business. In fact, it may be asserted that success in retailing depends entirely upon finding out what the people want and then performing that service for them as economically as possible.

**What Consumers Want.**—Consumers' desires are founded in deep fundamental cravings such as are necessary to exist-

ence. The commodities and services that satisfy these wants constitute the necessities of life. Among these fundamental wants are—

Hunger for food and the requirements for clothing and shelter so far as these supply protection from the elements and a means of continued existence.

Affections for the opposite sex, for companionship and friends, which find expression in desires for goods that are pleasing or protecting or of benefit to others.

The desire for self-expression which extends—in various degrees in different individuals, and at different times in the same individual—from a mere desire for recognition from others, to attempts to gain approval or domination over other persons. The purchases of clothing, automobiles, and home furnishings are constantly influenced by consideration of the effects of such goods on other people.

The innate tendency of curiosity which leads to the choice of goods to see what they are like and what satisfactions they may produce.

Desire for play, sport, and adventure; desire for manipulation, construction or creation of articles of various kinds; desire for the beautiful.

Throughout the entire gamut of human desires there runs the continuous want to own whatever may appear attractive or gratifying in the satisfaction of our desires. The desire for ownership is likewise expressed in efforts to make more money, or a deep interest in that which may assist in making more money, as well as in methods of saving.

**Standards of Living.**—The satisfaction of the fundamental hungers, listed above, is always and everywhere modified by many other factors, among which perhaps the most important are the current standards of living. By standard of living is meant a customary or habitual scale of living, which includes certain requirements both quantitative and qualitative



and, therefore, certain expenditures for the various types of commodities that enter into consumption, such as food, clothing, housing, house operation, home furnishings, personal expenses, amusements, and so on.

Standards of living vary enormously, because of differences in wealth and income, that is, purchasing power; size of families to be supported by individual family incomes; differences in education and social environment; and so on. Within a community at any given time the chief reasons for differences in standard of living are the differences in income and differences in the size of family. As income goes up the standard of living rises almost invariably and in direct proportions to increases in income where size of family remains the same. Under static conditions of family incomes, the larger the family the lower the standard of living.

In any community of large population composed of people of wide diversity in income as well as variations in family life, wide differences will be found in the standards of living. Though these differences grade upward and downward without boundary lines or demarcations, it is a matter of convenience to classify them, and though the various standards of living so classified may not have definite boundary lines and do overlap each other they are nevertheless fairly well-defined in at least general characteristics.

In the author's work on "Economic Principles of Consumption," ten grades or classes of standard of living were defined and described. For present purposes their enumeration may be sufficient.

There are outstanding indications that most of the people of the country tend to group themselves together in rather definite classifications with standards of living of marked characteristics. It is not enough to classify consumers into two or three groups. That is only a beginning. There are at least ten different planes of consumption among the masses of the coun-

try, each characterized by different standards of living. The standards are so distinctly different that they may be defined and designated by name. They are as follows:

1. Public and semi-public charges, dependent entirely, or nearly so, upon public or private charity.
2. Work-shy, tramps, hoboes, and incompetents who are partly self-supporting and partly parasitic.
3. The poverty standard of living in which family life begins but which is not fully self-supporting. In case of illness or mishap such people fall below the poverty line and must have the help of charity to exist.
4. The bare subsistence level, the lowest standard of living above the poverty line. There is not much leeway in this standard of living for expenditures in any line. Every dollar must be made to count for the absolute necessities of life.
5. Minimum standard for health and efficiency. This is sometimes called the minimum American standard and represents what, in the opinion of many students and social workers, should be the minimum for all people in the country. Great masses of unskilled labor families are to be found in this group.
6. The minimum comfort standard of living. This is the typical standard of living of the semi-skilled industrial workers in our factory cities and of the majority of the farmers living out in the country.
7. The comfort standard of living. This is the standard of skilled workers and lower paid salaried workers.
8. Moderately well-to-do standard of living. This includes the masses of better paid salaried workers, professional people, and smaller business people.
9. Well-to-do standard. This includes the more successful professional classes, higher business executives, and successful business owners.
10. The liberal standards of living, among which there are several grades, including all families whose annual expenditures range from $10,000 a year and up.



The proportions of expenditures for each division of the necessities of life run through these various standards of living as follows:

The expenditures for food range from 45% and up of the total expense in the bare subsistence level and then moves by regular gradations downward through the following standards of living to less than 20% in the liberal standards of living.

The proportion expended for clothing apparently begins at about 12% in the bare subsistence level, moves gradually up to from 20% to 22% in the moderately well-to-do standard of living and then gradually declines again in the higher standards.

The expenditures for housing, fuel, and light and other items of house operation maintain a fairly even relationship to total expense throughout all standards of living, amounting to about 20% of the total.

Furniture and home furnishings in common with miscellaneous items such as toilet goods, jewelry, musical instruments, radio, automobiles, amusements and vacations, travel, insurance, health maintenance, and so on, range from less than 24% in the lowest standards of living by gradual degrees upward to more than 50% of the total expense in the higher standards of living.

The kind of trade that any retail store may carry on is obviously dependent upon the specific standards of living of the people constituting its clientele, and probably but few retail stores are effectively able to serve more than two or three standards of living levels. Promoting a retail business reaching for trade at many different levels becomes a very complicated and difficult proposition.

**Variations in Standards of Living According to Incomes.**—As already indicated, standards of living vary mainly in accordance with incomes and size of family. The effects of these two factors on the standard of living may be described

by means of a table showing the approximate incomes required to support various standards of living under ordinary urban American conditions.

From Table 1 it may be seen that various standards of living are possible under the same incomes due to differences in size of family. A single individual may maintain a fairly high standard of living at a sum which would provide a very low standard of living for a family. An individual with an income of $1,800 a year may enjoy a moderately well-to-do standard of living. A man and wife living on the same income would have a comfort standard; a man, wife, and one child on the same income would have a standard classified as minimum comfort; a man, wife, and two children would have a minimum standard for health and efficiency; and a man, wife, and three children would get no more than a bare subsistence out of this income.

**Consumer Demand Modified by Age of Consumers.**—Under most circumstances, demands for goods come only from adults or persons above the ages of childhood. Parents select goods not only for themselves but also for their children. This is the rule the world over. But in this country there are several

TABLE 1. APPROXIMATE EXPENDITURES REQUIRED TO SUPPORT VARIOUS AMERICAN STANDARDS OF LIVING UNDER URBAN CONDITIONS[1]

(Costs and dollar values as of 1929)

| Standards of Living | Individuals | Man and Wife | Man, Wife and 1 Child | Man, Wife and 2 Children | Man, Wife and 3 Children |
|---|---|---|---|---|---|
| Bare subsistence | $ 600 | $ 900 | $1,200 | $1,500 | $1,800 |
| Minimum for health and efficiency | 800 | 1,200 | 1,500 | 1,800 | 2,100 |
| Minimum comfort | 1,000 | 1,500 | 1,800 | 2,100 | 2,400 |
| Comfort | 1,200 | 1,800 | 2,200 | 2,600 | 3,000 |
| Moderately well-to-do | 1,800 | 2,700 | 3,200 | 3,700 | 4,200 |
| Well-to-do | 3,000 | 4,500 | 5,500 | 6,500 | 7,500 |
| Liberal | 5,000 | 7,500 | 8,700 | 10,000 | 12,000 |

[1] From P. H. Nystrom, Economic Principles of Consumption, page 302.



notable exceptions. Children of foreigners learn the English language much more quickly than their parents, and hence frequently serve as interpreters for the family. They begin to read the English advertising, study the goods at the stores, and are influenced by fashion changes more quickly than are their elders. To some extent, children thus buy or influence the buying, not only of goods for themselves, but also for their homes.

The declining size of the American family is a tendency of interest to distributors of goods, particularly retailers, in that fewer children per family generally means lower sales of children's goods, but more attention to the purchases of each child's needs. This attention takes two forms, first to supply all its needs and demands much more completely than could otherwise be possible, and second, to give more freedom to the child to satisfy its own demands. The fewer the children, the more the money for each child to spend. In consequence, children of native-born parents, especially, begin to demand and to buy goods of a great variety at an early age.

Children's movements such as "Boy Scouts," "Campfire Girls," marble playing, baseball, roller-skating, and so on, sweep over a town with remarkable rapidity, simply because the wherewithal to supply the necessary material equipment is provided to the child by its parents when wanted. The present has been called the "age of the child." Children's wishes and welfare are considered as never before. This should be a matter of significance to the retailer in making his plans.

On the other hand, the declining size of the family, the declining death rates, and the restrictions on immigration, are having the effect of increasing the proportions of older people in the American population. Any analysis of merchandising opportunities in typical American communities must increasingly take these changes in age levels into consideration. The store must be arranged to show its goods in a way to appeal to the age of people who constitute its customers. What suits

one age may not suit another. The effect of such major changes in population on the markets and merchandise of this country is much greater than is generally realized.

**Consumer Demand Modified by Sex.**—Sex makes a great deal of difference in demand, not only in the obvious differences in the goods used, but also in the manner in which the goods are bought from stores. It is commonly asserted that it takes more time, and that it is more difficult to please and to sell to women than to men. It is probable that many of the differences that have been pointed out between the sexes in their buying habits are exaggerated, but there are certainly differences that need to be noted.

A generation ago, women's time was so completely taken up with the household industries in the home, many of which are now performed in factories, that they had very little time to spend in shopping. In those days men did much of the buying for their families. Now this practice is quite reversed. Women have been set free from a great deal of the arduous hand labor characteristic of the past, and have become purchasers rather than producers of the products needed in the home. It has been estimated by a number of people that 85%, or possibly more, of the goods used in the home are now purchased by women. This applies not only to goods used by the women themselves and by children, but also to foodstuffs and house furnishings. Even men's clothing, particularly furnishings, are purchased very largely for them by women.

In a survey made by the Research Department of the Crowell Publishing Company covering 11,000 retailers, it was found that women influence the purchase of:

62% of all hardware
84% of all drugs
90% of all automobiles
98% of all household supplies
97% of all groceries
77% of all sporting goods
61% of all men's haberdashery



Advertising to women, according to this statement, increased 64% in the period of four years from 1921 to 1925.[2]

In another survey, widely quoted, recently conducted in twelve kinds of retail stores and departments in New York City, it was found that women customers outnumbered men in all lines except automobiles and hardware. The following results were reported:

| Type of Store | Per Cent of Purchases | |
|---|---|---|
| | By Men | By Women |
| Drug store | 22 | 78 |
| Department store | 18 | 82 |
| Grocery store | 19 | 81 |
| Silks | 2 | 98 |
| Pianos | 22 | 78 |
| Leather goods | 33 | 67 |
| Automobiles | 59 | 41 |
| Hardware | 51 | 49 |
| Electrical supplies | 20 | 80 |
| Men's socks | 25 | 75 |
| Jewelry | 10 | 90 |
| Men's neckwear | 37 | 63 |

All of such figures are, of course, merely samples or estimates. Conditions might vary extensively in different localities. It is certain, however, that women are everywhere highly important in the choice and purchase of consumer goods. Even where men actually close the transactions women's tastes and desires are widely consulted. This is particularly true for house furnishings of all kinds, musical instruments, radios, and automobiles. Even gasoline is now probably sold almost as generally to women as to men. The woman is in a very real sense the purchasing agent for the American home. Retailing must take this into account.

[2] *Woman's Home Companion*, June, 1926.

**Selling to Women.**—Women are frequently harder to sell to than men. As a rule they take more time to shop than men do. Practice in looking over stocks of goods affords them much real enjoyment. Most women like to shop, whereas only a few men, relatively speaking, enjoy it. In their buying, women, as a rule, rely more than men do upon their own senses and less on brand names. Goods, to find a ready sale to women, must look good and feel satisfactory. Smell and taste, if a quality of the merchandise, must also suit. Women read descriptions and note details more carefully than men do.

The struggle of American families for social place and for more complete satisfaction of a very wide variety of wants causes many women to think more of the pennies than men do. For this reason, sales at reduced and odd prices mean much more to women than to men. The problem of making a little money go a long way under pressure of an increasing cost of living is one that women are meeting by giving more and more careful attention to details in their shopping. Still another factor to be considered is the education that thousands of housewives have had in textiles and foods through domestic science, home economics, and housekeeping courses in schools of all grades all over the country. Such education undoubtedly tends to make women still more critical purchasers, and the retail store must adapt itself to meet this development.[3]

Since women are now the chief customers of retail stores

[3] Other sex differences may be noted briefly as follows: Scientists affirm that women are less often color-blind than men. It is asserted that a woman has a much wider range of vision than a man has. With her eyes fixed straight ahead she observes persons and things farther to the right and to the left than men do. "Women go in flocks, and in social matters are less prone to stand out with salient individuality. They are more emotional, altruistic, intuitive, less judicial, and less able to make disinterested and impersonal judgment. . . .

"'Women excel in memory.' A woman's thoughts are more concrete and are more likely to relate to practical things of interest to herself. Men theorize and generalize more. Out of 483,517 patents recorded in Washington up to October, 1892, only 3,458 were by women. Women are more tactful and are able to extricate themselves from difficulties more readily than men. 'Old women are likely to be talkative, while old men are glum.' 'Male crime to female is as 6 to 1.' 'She is about as superior to man in altruism as she is behind them in truth-telling, being more prone to ruse and deception.'

"Influence and suggestion are more potent than argument with women. They are more emotional, blush and cry easier; and are more often hypnotized. They have more sympathy, pity, charity, generosity, and superstition." (G. S. Hall, Adolescence, Vol. II, pp. 561-567.)



in practically all lines, the stores must seek to meet women's standards and demands rather than men's. What satisfied men in the past does not wholly satisfy women now. Retailers who have grasped this idea and have made their stores conform to it in such details as cleanliness, fixtures, lighting, decorations, display of goods, and personal service, have reaped large rewards, while those who do not observe these changing conditions pass out in failure.

**Consumer Demand Modified by Individual Habit.**—Habits of customers are exceedingly important factors in determining how a retail store shall be carried on. We may distinguish between those which many people possess in common and those which belong to single individuals. The first class may be called social habits, customs, and conventions; the second class are designated simply as habits. Of the two classes the social habits are most important in laying out the plan of a store's work and its general policies. The habits of the second must be dealt with by the individual salesmanship of the retailer and his clerks.

**Consumer Demand Modified by Racial and National Characteristics.**—Customs depend upon race, nationality, and community. There are national foods, drinks, and clothing. Types of architecture and house furnishings are peculiar to, or at least originate in, certain countries. What one race of people may like, another race may find very distasteful. In a country such as the United States where all races are found, these racial and national variations constitute a big problem for the distributor.

For example, the French people eat little or no cereal for breakfast. For them breakfast foods have no appeal. Sour-tasting foods are much favored by the Germans. The English are great consumers of tea and biscuits—what Americans call crackers. Olive oil or imitations of it are much in demand among the people from Southern Europe. Every one has read

and heard of the part played in food supply by beans in New England, red peppers in the Southwest, corn bread in the South, potatoes in Ireland, oatmeal in Scotland, rice in Japan. The usual statements regarding the use of these foods by nations are greatly exaggerated, but the kernel of truth is suggestive to the retailer. A store in a community made up mostly of Germans must offer a different supply of goods and furnish a different service from that demanded by people in communities made up of French, English, or other nationalities.

**Community Preferences.**—Community habits are of more direct significance still. The resources of the region, the development of social standards of consumption, and the gradual unification of wants according to the class of people found in the community, are factors making for definite lines of merchandising. Country districts differ from small-town communities, and the latter from large towns and cities. The relationship of the store to the community in each case is somewhat different, and the power of the retailer to vary the conditions set before him also differs.

**Sectional Differences.**—Manufacturers recognize differences in the character of demand in various parts of the country. "Metropolitan" and "western" styles are two distinct classes. Groceries, soaps, and so on, are put up in certain ways for "southern trade." Maps might be made of the country showing divisions not by states but by parts of the country where various kinds of goods are consumed. Thus green tea drinking areas would be found largely separated from black tea areas. We should be able to locate sauerkraut areas, corn bread areas, carpet-using areas, rug-using areas, in addition to areas producing specific products used very largely at home. In New York, white eggs are considered the choicest, while in Boston and San Francisco brown eggs are considered most valuable. Corn meal must be yellow in the North, but white in the South. Butter must be more highly colored in the South



than in the North. The demand for apples in the large cities of the East centers on bright red fruit that is rather soft in texture. In some sections of the country fresh beef must be dark; in others light-colored. The extent of such differences and their effects on distribution—matters that are but imperfectly understood at the present time—constitute some of the big problems of the economical distribution of goods.[4]

**General Consumer Characteristics.**—Notwithstanding the differences, there are a sufficient number of similarities to warrant some general statements. For example, in dealing with the subject, "Consumers' Fancies," a writer in the Year Book of the U. S. Department of Agriculture (1904), pages 434 and following, called attention to certain factors in consumers' demands that will interest retailers, particularly grocers:

"The consumer has a fondness for red, white, and the colorless, and sometimes for yellow when reinforced with large size. Gloss, polish, and luster are wanted. Things should be large, and when applicable, of plump appearance; they should be uniform in size, shapely, and with ornamental lines. A convenient and showy package is appreciated and a product, trade, or producer's name, once established favorably, catches the fancy of customers often more easily and securely than anything else."

**Consumer Demand Modified by Fashion.**—Consumer demand is constantly changing. With this fact everybody is familiar. Changes in demand are continuously going on in every line of merchandise used in ultimate consumption. Such changes in demand occurring in lines of merchandise in which beauty or style are factors are termed fashions. While there are changes in fashions in foods, the fields in which fashion is a peculiarly important factor include clothing, home furnishings, automobiles, and other goods used in the presence of and affected by the opinions and tastes of other people.

[4] See P. H. Nystrom, Economic Principles of Consumption, Ch. XIII.

It is essential to distinguish between fashions and styles. A style is a characteristic or distinctive mode or method of expression or conception in the field of some art. Every distinctive product of any art is therefore a style. Some styles become widely copied, whereas others remain but individual expressions. So far as business is concerned, of course, individual styles are largely meaningless. Styles of wide acceptance and use constitute the bread and butter of business.

Fashion is the prevailing style at any given time. Any style, widely adopted, is therefore a fashion as long as its use continues.

To put the matter in another way, a style is a product or fact of art, while a fashion is a fact of social psychology. There are thousands and thousands of styles but there can be but a few fashions at any time.

Fashion is an exceedingly powerful force, dominating consumer demand. In no detail of serving the public is it more necessary for the retailer to meet the wishes of his trade than in supplying them with the merchandise that is in fashion.

The movements of fashion are fairly regular and with a little study may be quite definitely plotted. From such study it is likewise possible to determine the trends of fashion so that merchandising in line with fashions is not, by any means, a hopeless matter.[5]

**Outlines of Consumer Study.**—The necessity for retailers to offer what consumers want both in merchandise and service, at the time when they want it, and at prices which they are willing to pay, makes continuous consumer study an essential of successful retailing. The more scientifically such study is conducted, the more accurate and timely the results should be and the more successful the retail business from profiting from such results.

Detailed consumer study must be a matter carried on for

[5] See P. H. Nystrom, Economics of Fashion, Chs. I and II.



individual stores and their individual clientele. Though great similarities may exist from group to group and from community to community the specific characteristics of consumer demand which retailers are called upon to serve vary considerably. Hence consumer study, no matter how thoroughly conducted for one locality, is likely to prove of little more than suggestive value for other localities. The questions concerning consumers to which an individual retailer may properly address himself include the following:

1. Where are the store's customers? Do they live close at hand? Are they widely scattered? Do they follow any particular geographical or periodical boundary lines?

A community map showing the location of the store's customers will answer several other important questions that a retailer might ask. It will indicate what territories are now fully exploited and what other territories remain untouched. It should be a help in indicating where the retailer's efforts for promotion of his business may most profitably be expended.

2. What are the standards of living of the store's customers? By actual numbers and, if possible, by individual families, what are the incomes, the sizes of families, the education and social life and, as a result, the demands for merchandise? Income, size of family, education and social relationships are the basic conditions on which the family budget expenditures are laid out, whether definitely planned or not.

3. What goods do the store's customers buy? When do they make their purchases? How often do they purchase? What are the amounts of their purchases per time and per year? What are the seasonal fluctuations in purchase and use? What are the customary prices paid for goods purchased? Are the buying habits of customers considerably modified by special sales? Are the goods bought in package or bulk form? Are they purchased by brand names or not? By what member or members of the family groups are the goods purchased? What changes are going on in consumer demand for goods pur-

chased? What are the important factors in the consumers' minds that govern their choice of goods as well as their choice of retail stores from which they purchase their goods?

4. Where do the people who should be the store's customers do their buying? What is the type of merchandise and of service offered by competing retail institutions within the community and outside of the community? In what respects may the merchandise or services offered by competitors be improved upon as a means of securing greater trade for the individual store? To what extent do customers distribute their trade among several stores and why? What are the reasons for some part of the consumer trade going out of town? What part of competitive trade may logically and profitably be secured?

5. Finally, what means of publicity are available to the retail store for reaching its prospective customers? What forms of advertising may be profitably used? What display methods may be most effective? What forms of sales promotion will best fit the needs of the store? How shall the store proceed to get the attention and custom of consumers whom the store is best equipped to serve?

The foregoing represent some of the questions which the retail store in its own interest needs to answer. The check-up on consumers and customers of the store should be frequent enough to provide a moving picture of changing consumer demand.

Community studies and consumer analyses are frequently made both by individual retailers and by groups. A technique of consumer study has been fairly well developed. Some of the larger retail stores maintain consumer research activities constantly. A well-known middle-western department store employs several well-trained young women who spend their entire time in visiting housewife customers or former customers of the store, to find out whether their relationships with the store have been satisfactory or not and to collect the reasons for both the successes and the failures of the store. Comparative shopping in competitive retail stores is one means of determining in what respects competitive stores are selling merchandise or performing their service in better ways, but a still more fundamental method is the house-to-house canvass of actual customers, such as that carried on by the store mentioned above. No attempt is made to sell goods on these calls made by consumer investigators but there is a very definite purpose to find out if there are any reasons for ill-will and to help adjust them as promptly as possible.



Other stores, however, through their own executives or through outside research organizations frequently conduct consumer researches both by actual canvass of appointed investigators and by questionnaires sent out by mail. A well-written letter signed by the general manager, president, or owner of a retail store directed to the store's customers is a method that has been frequently used. If the letter has been properly prepared and if the replies are properly interpreted and put to use, this method usually brings a high percentage of replies of great value to the store. The method of sending more formal questionnaires by mail is not generally so effective. House-to-house visits by properly trained investigators, working on a specific set of questions, carefully planned in advance, have been found most useful.

**The Merchandise Review.**—Instead of direct studies made among consumers or the customers of the store, there is another method of approach to the problems of consumer demand, namely; the merchandise review.[6] The merchandise review attempts to gauge its success in meeting consumer demand by analysis of the store's own records, such as sales by lines and items, summaries of comparison shopping, reports, analysis of customer complaints, and reports of the Bureau of Adjustments, records of slow selling merchandise in reserves, difficulties with defective merchandise and markdowns taken

[6] "Methods of the Merchandise Review," as used in R. H. Macy & Co., described by W. C. Macey in *Dry Goods Economist*, July 13, 1929.

and the reasons therefor. All executives and employees having any contact or relationship with consumers are periodically asked to cooperate by presenting their best thought in the way of suggestions, as to the possibility of improving the store's merchandising functions and service to its public.

As a part of the merchandise review the attempt is made to analyze the store's customers, not only its actual customers, but its potential or logical prospective customers, to determine:

1. The proportions of the total number of the store's customers enjoying each of the various standards of living.
2. The proportions by age classes, whether young men and women or older men and women.
3. The proportions of customers by occupations, whether unskilled day laborers, skilled workers, farmers, office clerks, executives, professional people, and so on.
4. The proportions of customers classified according to interest in new styles and fashions, such as those satisfied with styles when in the middle or late phases of fashion movements, those who are progressive in their tastes, and those who desire the latest style creations.

It may be presumed that most stores are unable to carry such an analysis of its customers further than a rough approximation, but in this direction lies the beginning of scientific merchandising.

In the tabulation of reports giving consumer attitudes on merchandise and service sold by the store, there is need for the application of careful scientific statistical methods of presentation. Some of the recent consumer studies made in the retail field not only attempt listing of consumer opinions and views as to the store's merchandise and services, a qualitative analysis, but also work out tabulations and presentations of consumer information both in relation to relative importance of the views presented and the intensity of consumer feeling upon each view.[7] It may be presumed that, under conditions



of sharpening competition which prevail in the retail trade on every hand, consumer analyses will continue to be made more and more frequently and likewise more carefully.

In the chapters following in this book, many suggestions are made with respect to the importance of consumer attitudes toward the retail store, means of securing knowledge of what the consumers' attitudes are, and likewise means of securing favorable consumer attitudes. This phase of retailing, it is believed, is likely to prove one of the most important and perhaps most productive fields of retail study in years to come.

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[7] J. David Houser, of New York City, presented a method of measuring customer attitudes at the annual convention of the National Retail Dry Goods Association, February 7, 1928. He showed how a carefully compiled questionnaire used by house-to-house investigators might secure reports of attitudes of customers upon all phases of store service and contact with the public. These reports are then tabulated not only to show their relative importance to the success of the store but also the relative intensity of feeling existing upon each point discovered.

# CHAPTER III

## ORIGINS OF RETAILING

**Early Customs.**—To understand present institutions it will be helpful to study their origins and developments. Their beginnings lie deep in antiquity. Their customs are in many instances ages old.

Few references to retailing and to trade are found in the literature prior to the nineteenth century. This does not mean that trade did not exist or was not important in the life of the people in past times. Indeed, researches made during the past generation in the histories of ancient civilizations show that trade occupied a very important place in the economic life of nearly all peoples. There have been very few nations concerning which we have any record which have not in some degree enjoyed the benefits of trade.

Wherever there were cities there must have been commerce. Much evidence has been discovered pointing to busy economic life and traits. The direct evidences uncovered in the ruins of ancient cities include the open spaces that once were market places, the porches of buildings that probably served as shops, the buildings that served as warehouses, the earthenware jars used for storing grain and other goods, the weights and measures, the media of exchange, and, last but most eloquent of all, the papyri, the scrolls, the clay tablets, the notched sticks and stones that constituted the bills of sale and the bookkeeping records of transactions.

The city dwellers in ancient times as well as now had to be fed, clothed, and supplied with articles of utility and adornment. How, other than by the mechanisms of commerce, could they have been supplied? It is possible to imagine that self-





sufficient, non-trading life in small villages where each family, while living in a town or walled village for protection from enemy bands and marauders, cultivated its own plot of soil and had its own flocks or shared in some communal way in such crude output of goods as may have been produced by small groups. But in the larger cities, several of which, even in the most ancient times, numbered tens of thousands and in a few cases as many as hundreds of thousands of people, such simple production and distribution is unthinkable. Babylon, Tyre and Sidon, Carthage, Athens, Alexandria, and Rome, to mention only a few of the leading places, were great, populous cities in their times. The necessities of life to support them must have been gathered from wide areas.[1] Alexandria by 320 B.C. had a population of nearly a million people. Rome at the beginning of the Christian era probably had a still greater population. Food supplies and other goods for these cities, as is definitely known, came hundreds and perhaps even thousands of miles.

Goods were gathered from widely scattered small producers, concentrated for shipment, carried over land by caravans, over sea by ships, distributed by importers in wholesale lots to small tradesmen, and then redistributed to consumers at retail. It is more than likely that the first city, wherever and whenever that sort of social group first came into existence, saw the beginnings of importing, specialized production of food, clothing, implements, and articles of adornment, and wholesaling and retailing in some form or other.

Ancient cities, much as modern cities are, were essentially trading centers, serving not only those who lived therein but also the people who lived within their trading radius and territory. Evidence in the earliest written records, supplemented by artifacts and relics of commerce discovered in ancient ruins,

[1] William L. Westermann in an article, "On Inland Transportation and Communication in Antiquity," published in *Political Science Quarterly*, September, 1928, describes the origins and developments in use of horses and camels, rivers, canals, and highways in the early periods of history.

proves that there existed systems of both wholesale and retail trade as far back as known records go.

Internal and external commerce rose and fell with the tides of history. At times, under conditions of peace and favorable government, trade grew to an imposing importance which continued in some cases for centuries only to be followed by long periods of decline, dark ages of depression, in which there was little opportunity for commercial exchange of commodities. One civilization after another rose to prominence and then declined. Many nations became leaders in trade and commerce only to give way in time to others.

**Minoan Culture and Trade.**—For many years the Phoenicians were the earliest trading people of whom records could be found. However, new records have recently been discovered of a still earlier commercial civilization, probably as great or even greater than that of the Phoenicians and preceding the Phoenicians by several centuries. This civilization, which extended over wide areas of the Mediterranean region and possibly beyond, centered in the island of Crete and is known among students of history as the Minoan or Ægean civilization.

Knowledge about these ancient people and their activities is very fragmentary. It seems certain that they dominated the eastern Mediterranean in the period from about 3000 B.C. down to about 1200 B.C. Direct evidence shows that their power extended to Egypt, Greece, and Italy, and their influence may have extended much further.

The Cretans at this very early period had developed both practical and fine arts to a high degree. They were thoroughly skilled in the manufacture of bronze implements, pottery, statuary, textiles, and in the artistic use of color. They possessed and used a form of picto-graphic writing and a system of decimal counting extending to at least 10,000. Numerous tablets have been discovered which are believed to be bookkeeping records of business concerns. The relics that have been discovered of this civilization indicate that the people possessed an advanced knowledge of the arts of jewelry, cosmetics, and dress. The corset was probably in common use among their women. Head-dresses and apparel styles illustrated in statuary and frescoes show interesting artistic perspectives.



Very little is known of their commercial institutions. It seems certain that in the transaction of their trade with distant lands they must have had trading posts, carried on shipping, and, undoubtedly, had middlemen. It is even likely that they possessed some form of currency. Thus the roots of the systems and institutions of trade are hidden in the dim mists of antiquity.

**Phoenicians Control Trade from 1200 to 500 B.C.**—The records of Phoenician trading activities have long been available. It is definitely known that an extensive trade was carried on at the eastern extremity of the Mediterranean Sea largely, if not entirely, by the rich, powerful, aristocratic city states of Tyre and Sidon, in Phoenicia. For the hundreds of years extending from 1200 B.C. down to 500 B.C., Phoenician civilization and Phoenician commercial activity dominated the Mediterranean region. Tyre and Sidon were the great market places of the world. Merchants from all nations gathered at Phoenician fairs to buy and sell all sorts of products.

The Phoenicians were a sea-faring people. Their vessels, rigged with sails and oars, carried their merchant adventurers up into the Black Sea to southern Russia, westward along both shores of the Mediterranean to the Straits of Gibraltar, and quite possibly out into the Atlantic Ocean and northward as far as the Scilly Islands and Cornwall, England. It is possible that they may even have penetrated the Baltic Sea region and Scandinavia. They also carried on an extensive trade along the Red Sea and in the Persian Gulf as far as India. Phoenician sailors probably circumnavigated Africa as early as 620

B.C. and, if so, they preceded Vasco de Gama by nearly 2,000 years.

Pack-trains and armed caravans also extended the Phoenician trade to the interior of Asia, Europe, and Africa. At regular seasons every year, Phoenician traders left Tyre and Sidon with valuable stocks of Phoenician products for distant lands in Asia, Egypt, and other parts of Africa, selling their manufactured goods and buying foodstuffs and raw materials needed at home.

The Phoenicians brought tin from the Scilly Islands and Cornwall, England, slaves and furs from Central Europe, wool from Spain, wine, fruits, oil, honey, and wax from Greece and Italy, grain from southern Russia, flax and linen from Egypt, gold, jewels, coral, ebony, ivory, spices, and fine fabrics from the Orient. In return they distributed pottery, vases, bronze implements, jewelry, glass, embroideries, and beautifully woven and dyed fabrics.

In addition to being traders, the Phoenicians were probably the most skilled craftsmen of their day, particularly in metallurgy, glass, wood, and textiles. Their bronze and brass implements, vases, dishes, vessels, statuary, and ornamental work; as well as their work in jewels, precious metals, ivory, and particularly amber; their fine ornamental glass, their carved cedar and oak chests, their beautiful fabrics, robes, and carpets, richly embroidered and dyed in multicolors, and their famous Tyrian purple, came to be known throughout all lands to which their trade extended. Greece, Syria, Israel, and Judah, Egypt, Northern Africa, much of Southern Europe, and probably even Babylonia, looked to and depended upon the Phoenicians to buy their surplus products and sell them goods they could not or did not make at home.

The Phoenicians were of Semitic origin and were related racially to the Arabs and the Israelites. Their religions, arts, and cultures were somewhat the same. It is believed that they originally came from the Mesopotamian Valley or near the



Persian Gulf, where the Israelites also originated. It was also believed for a long time that it was the Phoenicians who gave the alphabet to the Greeks and the western world, but it now seems more likely that the Phoenicians got the alphabet and the art of writing from the Babylonians and merely passed it on to the West. While skilled in many arts and crafts, their genius seems to have been mainly commercial. In their time they were the world's professional traders.

In extending their commerce, the Phoenicians established numerous trading posts on both the north and south shores of the Mediterranean. Among these were Carthage in North Africa, which in time became more powerful than either Tyre or Sidon. Through Carthage a great trade was opened up with Central Africa, Spain, and southern France. Trade routes were established across the Sahara Desert and eastward across the Libyan desert to Egypt and the Red Sea. Rome, which was founded about a hundred years after Carthage, became its chief commercial and political rival. Carthage was finally destroyed by the Romans in 149 B.C., and the Carthaginians were swallowed up in the Roman Empire.

The Phoenicians scoured the known world of their times for business. They supplied ships for neighboring states. They built and manned fleets alternately for the Egyptians and the Babylonians when the latter penetrated to the Mediterranean. They supplied many of the materials, such as the necessary metals and cedar and fir from the Lebanon mountains, for the construction of public buildings in Jerusalem, including a palace for King David and a palace and a great temple for King Solomon. From obscure references in the Old Testament it is also possible that the Phoenicians helped build the wall around Jerusalem and also a number of towns established during Solomon's time.[2]

Hiram, King of Tyre, with whom Solomon dealt, supplied the architects, artisans, and skilled workers as well as the mate-

[2] I Kings Ch. ix, 1-28.

rials, the wood, brass, gold, and probably much of the silver, and jewels used in the construction of the temple. This marvelous building is picturesquely described in I Kings vii and in II Chronicles v. In style of architecture and furnishings it was probably essentially Phoenician.

Hiram of Tyre and Solomon maintained a highly friendly and neighborly relationship. Hiram built Solomon's palace, the temple, and probably other public works. Solomon paid Hiram for these services in raw materials such as wheat and oil and also some territory including twenty cities which, after he had looked them over, Hiram considered as a rather bad bargain. Solomon was evidently as good at bargaining as his great Phoenician neighbor.

The Israelites were, during most of their existence as a nation, confined to the Jordan Valley and its environs. During Solomon's reign, its rule was extended to the Mediterranean and even to the Red Sea. With Hiram's help Solomon built a navy and Hiram even supplied the seamen, for the Israelites had had no experience with the sea. Later a daring adventure was carried out cooperatively. Solomon's navy, with Hiram's assistance, was sent to Ophir, which may have been India. The venture turned out very successfully. Rich cargoes were brought back, but whether the result of freebooting or of peaceful trade is not revealed. Frequent references in the Bible indicate that the Hebrews and Phoenicians got along very well for two or three centuries. Hebrew writers described the Phoenicians as merchant princes, honorable traders, and wisemen.

After the return of the Jews from captivity under the Assyrians, the temple was rebuilt. As in the first instance, Tyre and Sidon were called upon to supply materials.[3]

The Phoenicians must have been adept in the arts of diplomacy as well as in trading or they could not have continued as leaders of the Mediterranean carrying trade as they did for

[3] Ezra Ch. iii, 7.



hundreds of years. They were equally successful in dealing with the proud and quarrelsome Greeks to the north, the well-established, self-centered Egyptians to the south, the ancient civilizations of the Euphrates Valley to the east, and the haughty, austere Romans to the west.

These friendly relations suffered somewhat during the period of Assyrian rule over Palestine from 876 to 605 B.C. The Jews were conquered, but the Phoenicians, while very much harassed by Assyrian war lords, were able to maintain their identity. During this period the Jews became somewhat sensitive toward their old neighbors. Tyre was accused of sneering at Jerusalem and this brought down direful maledictions and the prophecy of awful destruction by the prophet, Ezekiel. Some years later in the sixth century B.C.,[4] Tyre was destroyed by Nebuchadnezzar the King of the Chaldeans.

However favorable the Jews may have felt toward the Phoenicians, it is certain that the Greeks always held very critical ideas about them. Homer in the Odyssey, Book XV, said:

"Thither came the Phoenicians, mariners renowned, greedy merchant-men with countless trinkets in a black ship. . . . They abode among us a whole year, and got together much wealth in their hollow ship. And when their hollow ship was now laden to depart, they sent a messenger . . . There came a man versed in craft to my father's house with a golden chain strung here and there with amber beads. Now, the maidens in the hall and my lady mother were handling the chain and gazing on it and offering him their price."

Later Greek writers dwelt on the bad reputation of the Phoenicians, their thievery, their kidnaping, their lying, their dishonesty, and so on. It may be presumed, however, that in their early contacts the Greeks possessed neither the ability, culture, knowledge, nor experience of the Phoenicians. As has always happened in racial contacts representing different cul-

[4] Ezekiel Chs. xxvi, xxvii, xxviii.

ture levels, the people of the lower culture were probably badly exploited by the Phoenicians, with the result that strong feelings of enmity and prejudice were established in the traditions of the Greek race. These prejudices were never entirely removed, even when Greek civilization had risen to a place of dominance over the Phoenicians.

The Greek writers, however, never held trading in high esteem. All commerce was held to be more or less immoral and this view may have helped to influence their attitude toward the Phoenicians, or, perhaps, it was their inferiority to the Phoenicians in matters of trade that led to their general expressions of disdain about commerce.

**Ancient Greek Trade.**—In the earliest history of the Greeks they were essentially a pastoral and agricultural people who lived on the products of their flocks and fields. Trade to them was quite insignificant, and was probably carried on mainly by the Phoenicians.

About 600 B.C., however, Greek economic development had reached a point of surplus production so that trade with other people began to be highly important, but, for some time, the actual shipping and trading continued to be carried on by Phoenicians and other Asiatics. The surpluses consisted largely of pottery, fabrics, leather, bronze goods, dyes, silver and gold articles, jewelry, wine, and ships.

With the continued growth of population, the time came when Greek agriculture no longer provided sufficient foodstuffs for the growing cities. To provide the necessary grain an extensive commerce developed, particularly with nations to the north in what are now the Balkan countries and southern Russia. Merchant adventurers came into existence in the Greek cities to exploit this trade. An extensive merchant marine was developed by private individuals. As the Greek merchants began to rise, the Phoenicians began to decline.

Greek vessels carried Greek products to distant lands and



brought in return food supplies such as grain, cattle, fish, and honey, and other raw materials. Both Athens and Corinth became great importing centers for grain from southern Russia. As a means of completing the distribution of these foodstuffs and other products to the consumers there grew up a very complete network of retail grain dealers, bakers, and other retail shops in all of the Greek cities.

Greek traders and entrepreneurs made their appearance in all centers of trade. They bought from and sold to the Egyptians, the people of Asia Minor, Europe, and all along northern Africa. Wherever there was productive enterprise, Greeks came to participate. Greek traders were ubiquitous.

Gradually, Greek trading in other lands led to the establishment of permanent trading posts with regular visits of Greek ships. Some of these places became prosperous Greek colonies. By 300 B.C., there were scores of such places scattered all around the Mediterranean and the Black Seas. It was the strength of these commercial colonies which supported Greek leadership for a long time in spite of the lack of a central Greek government or empire. Up to the time of Alexander the Great, it was the merchant marine that had held back enemy invaders. It was the mercantile power that had been used to smash the Persian armies and navies and to repel the attacks of other enemies.

Despite the importance of trade in Greek life the ancient prejudice against trade continued through the entire period of Greek influence. Trade was looked down upon as something beneath the participation of a gentleman. Land-owning and agriculture were always given a higher social rating. Very few merchants were allowed high position in Greek public life, particularly in the early centuries. A notable exception, however, was Solon, the Athenian law giver, who for many years prior to his public work was engaged in mercantile pursuits. Most of the Greek statesmen were either land-owners or mili-

tary leaders. Many of the small retail shops, even in inland Greek cities, were carried on by aliens and freed slaves.

Despite the fact that the Greeks showed great enterprise in commerce and dominated the trade of the Mediterranean regions for some centuries, the Greek nation as a people never gave to trade a highly recognized position in its social life. The Greek city governments discouraged rather than encouraged traders. They frequently placed harassing restrictions and inordinate taxes of various kinds upon them. For many centuries the traders probably had but small share in government. Greek writers generally followed the social ideals of their time in frequent disapproval of trade and its practices. Only through the logic of necessity and after long ages did Greek statesmanship finally become converted to the economics of commerce. By that time the Mediterranean world was largely under the dominance of the Roman eagles.

It is interesting to note that Plato, in his description of an ideal government in the "Republic," recognized quite definitely the necessary contribution of trade to public life. In his description of an ideal city he urged the establishment of a market place, of a standard money system, and of buying and selling. Plato's suggestion that those unfit for other occupations should be the bankers and retailers, however, is not altogether flattering. He says:

"For there are some who devote themselves to this service and in well regulated cities they are chiefly such as are weakest in body and are unfit for any other work. These then should attend about the market to give money in exchange for money to such as want to buy. It is these that provide our cities with a race of shopkeepers, for do we not call those shopkeepers who sit in the market and serve both in selling and buying? Whereas such as travel to other cities we call merchants." [5]

[5] The term, "race of shopkeepers," was probably used in a slightly derisive sense. It has since been used many times, sometimes derisively and sometimes in a complimentary way, particularly as applicable to England in modern times. Dean Tucker of Gloucester used the term in a tract published in 1766. See also Adam Smith in his "Wealth of Nations," Book IV, Chapter 7. Napoleon Bonaparte referred to the English contemptuously as a nation of shopkeepers.



**Early Roman Trade.**—The early Romans were like the ancient Greeks in that they were largely a pastoral and agricultural people living self-contained existences, selling and buying but little. For a short interval of Italian history, about 600 B.C., Rome was ruled by an aggressive race of people known as Etruscans whose concepts of the advantages of trade were much in advance of those of their Italian contemporaries. While the Etruscans dominated Rome, commerce spread rapidly in all directions. Trade was carried on with Greece, Egypt, Asia, and Carthage, and the Roman market places and retail shops were rich with oriental merchandise. The Etruscan period seems to have been one of great wealth and prosperity while it lasted, but it could not be maintained under the constant attacks of the more savage Latin tribes.

**Retail Trade in the Roman Empire.**—The Latins were never great traders, but in the development of their political and military policies they opened the way for trade. In all stages of Roman life much of the commerce, both wholesale and retail, of the Roman Empire was carried on by Greeks, Phoenicians, Syrians and other Asiatics and even by Carthaginians. The Roman aristocracy was founded on land-ownership and the Roman patricians were inclined to look upon trade with disdain much as the Greek landlords had done. Unlike the Greeks, however, the Romans generally placed fewer restrictions on trade and did more to help it than did the Greek cities.

The attitude of the aristocratic Roman toward the trading class may be illustrated by the following statement from Cicero:

"All retail dealing may be described as dishonest and base, for the dealer will gain nothing except by profuse lying and nothing is more disgraceful than untruthful huckstering."

Despite such snobbish and critical views of traders, commerce of all kinds occupied a very great place in the life of the people of Rome and its dominions. Mercury may have been the

Roman god of thieves but he was also the god of trade, and his votaries in the more peaceful activities of trade were legion.

The knowledge of Roman life among historians is such that a fairly complete picture may be presented of retail trade as it was carried on in the principal cities of Italy during the period of the Roman Empire.

"Shops abound almost everywhere. In the great commercial quarters by the fora, the Tiber and the Campus Martius, will be found the splendid establishments which cater to wealth, but no quarter of Rome is too mean for its bakeries, vegetable stands, wine shops, and cheap restaurants. In fact, the absence of a speedy means of interurban communication makes a multiplication of small shops absolutely necessary." [6]

Farther on, Rome is described as "a wilderness of shops, . . . Hardly a street but has grocers' stalls; the terra cotta plaque with a goat, the sign of a milk dealer; the stone relief of two men tugging a great jar slung up on a pole, the sign of a wine shop." [7]

Certain sections of the city were devoted to trade in certain classes of goods. "The fashionable fish-mongers have their odoriferous stalls under the great porticoes and basilicas by the fora; the fruit sellers are along the ascent from the Old Forum, while jewelers, goldsmiths, and makers of musical instruments, as well as the great bankers, have their headquarters directly along the Sacred Way itself. Perfumers' shops were concentrated under the southeast brow of the Capitoline Hill.

"There were two shopping districts outside of the fora for cheap trade, where elbowing plebians struggle for bargains. The little shops are wedged all along the swarming Tuscan Street (Vicus Tuscus)—but for the more select purchases high-brow ladies and gentlemen order their litters to take them north and along 'Broadway' (Via Lata) where by the Saepta

[6] W. S. Davis, Day in Old Rome, p. 18.
[7] *Ibid.*



Julia and the vast series of porticoes adjoining or opposite were the finest retail shops in the entire world at the time." [8]

The retail shops in Rome were usually very small. Most of the goods offered for sale were upon counters facing the streets. The shops were generally presided over by the proprietor and his wife with the occasional help of a slave or two.

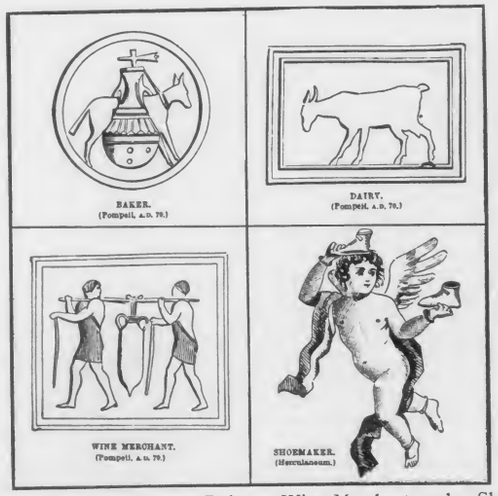


Figure 1. Signs of a Baker, a Dairy, a Wine Merchant, and a Shoemaker in the First Century A. D.

From "The History of Signboards," by J. B. Larwood and J. C. Hotten: Chatto & Windus, London.

The shopkeeper usually lived in a room or rooms back of or above his stand. Manufacturing was carried on in the same establishment. Shoes were sold at the front while the cobblers were at work making them in the rear, and similar arrangements held for pottery, jewelry, fabric, clothing and other wares.

At night and on holidays heavy shutters were set up to

[8] *Ibid.*

protect the shops against thieves. The shutters were always so conveniently arranged as to be closed easily in case of street riots. A street brawl was always accompanied by a clatter of rapidly closing retail shops. When the row was over the shutters would again be cautiously removed.

It seemed to have been a custom among these Roman shopkeepers to cry out their wares to induce prospective customers to buy. With long rows of competitors' shops, what a hurly-burly must have presented itself to the visitor of the retail markets!

Shopping was a well-established custom and the retail sections were usually crowded during the day-time. Hucksters and peddlers thronged the streets much to the discomfiture of owners of shops. Various efforts were made to confine the retail trade to resident dealers. The license system was in common use to limit peddling, and official edicts were issued from time to time in the interests of established retailers.

Auction sales which probably originated with the Romans were likewise frequent in Roman life as a means of quick disposal of stocks of merchandise. The Roman auctioneers were expert in stimulating the bidders and praising the articles offered for sale.

Among the classes of retailers represented in Rome in the days of the Empire were cobblers, bakers, butchers, fish dealers, furniture dealers, potters, cutlers, green grocers, spice dealers, perfumers, jewelers, fabric dealers. There were even shops for the sale of ready-made apparel which assumed considerable proportions in the periods of the greatest prosperity of the Roman Empire. Public laundries and cleaning establishments were much patronized.

Factories were all small and production was of course by hand. Most of the work was done by slaves. Apparently there were both retail and wholesale stores as well as great warehouses, particularly in those lines of merchandise imported



from other countries. The warehouses were constructed for the storage of grain, salt, hides, and other bulky goods. Grains and other commodities were usually not stored and shipped in bulk nor in sacks but in earthen jars.

Rome in the days of the Empire was the center of the fashion world much as Paris is today. Apparel for both men and women, millinery, footwear, jewelry, perfumes, toilet preparations, court and festival regalia, armor, chariots, dances, games, music, arts, diversions, and manners changed continuously then as now. The people of the most distant lands awaited news of these changes brought by post and couriers from fashion headquarters, Rome, as people now study fashion reports from Paris.

A recent newspaper account has appeared indicating that excavations in Rome have uncovered the remains of a large retail mercantile institution, several stories high, which may have been much like the modern department stores. It is even possible that there was multiple shop-ownership but of that we cannot be sure. It seems fairly certain that wealthy merchants were represented in many places by agents and in this sense there were chain organizations. Certainly there was a flow of business out of Rome by messenger and post somewhat comparable to the present mail order business.

It is also interesting to note that there were professional shoppers in Rome who served clients living in other cities in Italy, and even in distant colonies, by shopping the retail markets and making purchases in apparel, jewelry, furniture, bronze, porcelain, and even slaves. It is difficult to point to any modern activity which did not in one way or another have some counterpart in Roman commercial life.

**Trade in Medieval Europe.**—Trade declined when the Roman Empire went to pieces during the fourth and fifth centuries. Many of the roads and trade routes, so well worn by countless travelers, carriers, and caravans, fell into disuse.

Retail trade in common with all other branches of commerce sank very low.

For a period of 300 years or more ending in the tenth century, such trade as existed in western Europe was kept up by itinerant Jews, Syrians, and a scattering of other races. They carried their packs of merchandise on their backs and went from castle to castle offering their limited wares, consisting mainly of eastern-made fabrics, laces, embroideries, jewelry, perfume, and spices.

After the conversion of the northern lands to Christianity the traffic was increased by the sale of religious goods, beads, relics, and art objects. These goods found the way to consumers not only through peddlers but also by religious pilgrims and churchmen.

Ordinary trade was almost impossible in most parts of Europe during the Middle Ages. Lacking strong central control or national police power, highway robbery and piracy were common occurrences. In the place of central authority there had arisen multitudes of local powers or principalities, which, for the most part, instead of attempting to encourage trade, did all they could to prevent it by collecting heavy tolls on merchandise brought into and sent out of their territories, and by collecting exorbitant taxes from traders. Probably much of the trade that did exist took the form of bootlegging or smuggling. Outside of the struggle for the barest existence on crude foods and the minimum requirements of clothing and shelter, the principal business of the most of the ruling classes of Western Europe during the medieval period seems to have been warfare. Under such conditions it is not surprising that trade could not prosper.

During the tenth century, or even before, certain towns in southern Italy began to recover some importance as trading centers such as had been enjoyed in classical times. Among these were Brindisi, Taranto, and Amalfi. Later, north Italian



towns including Venice, Florence, Pisa, and Genoa came into prominence as commercial centers.

The Italian cities reopened the old trade routes to the East to Greece, Egypt, Persia, and even India. Silks, gold, jewels, and spices were brought from the Orient by the merchants of these Italian cities and then redistributed throughout Italy and Central Europe. Travel increased and products handled by the Italian merchants found their way by slow degrees into France, Germany, and even England.

As an indication of the volume of business handled by the Italian cities there is a record that Venice alone distributed 420,000 pounds of pepper in a single year. Spices, wines, fine fabrics, jewelry, and so on, were the chief commodities obtained from the Orient and sold to the rude barons and overlords of Central Europe.

During the period from 900 A.D. to 1200 A.D., trade, both wholesale and retail, began to reappear. The old market places which had fallen into disuse at the end of the Roman Empire began to be reopened. Market stalls were established, periodical fairs were held, and traders dealing in consumer goods multiplied.

Before the Crusades, nearly all of the trade with the Orient passed through the Italian cities to the great enrichment of Italian shipping and Italian merchants. The Crusades resulted in intensifying consumer demand for eastern goods, both among those who had enjoyed such goods before and great numbers who had not known of the existence of these kinds of merchandise. To handle this growing business trading centers appeared at various points, gradually spreading northward and westward throughout Europe.

The priesthood participated in a marked degree in the development of this early commerce. The protection of the Church indirectly, if not directly, assisted the peaceful development of trade. Robbers and free-booters who had no compunctions in waylaying a layman peddler feared to interfere

with the activities of men in the garb of priests, carrying crosses and other holy insignia. For a time the Cistercian monks were the leading wool and fabric merchants in Northern Europe. Religious pilgrims of most denominations combined merchandising with religion and drove thrifty bargains with willing customers on goods they had brought with them from the East.

**Trade in Medieval England.**—The first wholesale and shipping merchants to locate in England were Germans who had come over from the continent and who established agencies to serve their houses abroad. These merchants were given the right to transact business in what was known as the Steel-yard of London.

During the fourteenth century under Edward III, a very rapid development of trade occurred in England. Shipbuilding was encouraged. Merchandising was given social standing. Later, immigrants from Europe, particularly the Walloons from the Lowlands across the Channel who were skilled in spinning and weaving, came into England in great number. As an indication of the humble beginnings of the British textile industry it has been stated that at the opening of the fourteenth century there were less than 100 good wool weavers in all England. Prior to the fourteenth century the interests of the people had lain in other directions. For example, at the time when there were less than 100 good weavers in all England, there were about 30,000 students at Oxford University alone!

**Rise of Mercantile Gilds.**—About the middle of the fourteenth century leading English business men began to promote foreign as well as domestic trade. These early traders, called "merchant adventurers," were united in what was known as the Brotherhood of St. Thomas à Becket. As the power of the merchant adventurers grew they not only established themselves in England but also located trading places with warehouses at various places on the continent. Edward III took a great deal of personal interest in the progress of these merchant adventurers and gave them much official encouragement and help.



Merchant brotherhoods or gilds were formed in nearly every English town during the fourteenth and fifteenth centuries. These merchant gilds were for a long time made up of all the traders located in the community. They sought by means of organization to establish the rights of trade for themselves, the abolishment of unreasonable restrictions, tolls, taxes, and other difficult conditions of trade, and to eliminate cut-throat competition.

In some cases they had to buy the privileges of free trade. In other cases they gained these rights by aiding the Crown in wars. It is interesting that none of these gilds appeared in England before the Norman conquest and it is believed by some that they were Norman institutions brought in during the latter part of the eleventh century. Certainly their period of greatest activity came during the fourteenth and fifteenth centuries.

During the eleventh, twelfth and thirteenth centuries a considerable proportion of those engaged in English and continental trade were Jews who had been granted protection in England by the Norman rulers. It is probable that these Jewish merchants contributed much toward the building up of the British merchant gilds and in obtaining favorable trade conditions.

**Rise of Traders in Social Standing in England.**—In medieval England as in ancient Rome, all traders were for a long time looked upon as questionable if not undesirable characters. In the Saxon era trade had actually been discouraged. By the fourteenth century, however, so many changes had occurred, particularly through the influence of the merchant gilds, that men engaged in merchandising and shipping began to be prominent in British public affairs. It is interesting to note that the

first English merchant to be made an Earl was De la Pole of Hull whom Edward III honored by making him the Earl of Suffolk near the end of the fourteenth century. Other famous merchants of these days were William Connynges of Bristol, Richard Whittington, the Dick Whittington who became Lord Mayor of London; and John Crosby, also of London.

**Competition of English and Continental Merchants.**—The merchant adventurers who were for the most part owners of shipping and wholesale warehouses continued to grow in importance in English trade throughout the fifteenth and sixteenth centuries. By the sixteenth century they had reached a development of such power as to challenge the supremacy of

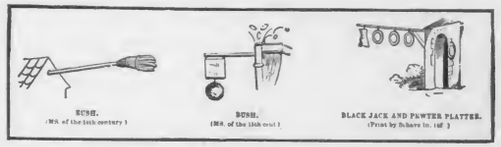


Figure 2. Fourteenth and Fifteenth Century Signs
From "The History of Signboards," by J. B. Larwood and J. C. Hotten: Chatto & Windus, London.

the great merchants located in the continental towns of Hamburg, Luebeck, and Bremen, members of the Hanseatic League, as well as the power of the Italian merchants whose trade extended from Gibraltar to India.

Queen Elizabeth was as greatly interested in the development of English trade as Edward III had been. She, herself, was classed as one of the principal merchant adventurers of the sixteenth century. In her wars with Spain it was the British merchant ships that made up most of the English navy and it was the power of the merchant adventurers back of the British throne that eventually defeated the Spanish Armada near the close of the sixteenth century.

**Organization of Great Foreign Trade Companies.**—At the opening of the seventeenth century there began to be organized



numerous foreign trading companies in England such as the East India Company in 1600, the Levant Company in 1605, the London Adventurers, who sent Captain John Smith to found a colony in America in 1607, and the Plymouth Adventurers who encouraged the settlement of New England by the Pilgrims. There were many other companies started in this period, such as the Russia Company, Turkey Company, Morocco Company, Guinea Company, and so on. All were primarily actuated by motives of commercial gain.

Through the establishment of these companies and the extension of foreign trade, English wealth and prosperity increased and home commerce steadily gained. By the early part of the eighteenth century several developments had occurred in English trade such as the establishment by the wholesale merchants of branches, factories, and agencies in various parts of England for the collection of wool and other raw products, and for the distribution of manufactured goods in exchange. These organizations were literally chains buying and selling under central control and management much as modern chain systems do.

**Decline in Peddling and Rise of Retail Shops.**—Retailing in England before the Norman conquest seems to have been almost entirely carried on by peddlers. As the cities developed, the peddlers settled in more or less permanent little shops. It seems quite certain, however, that peddling continued to be the important form of retailing well into the thirteenth century.

Several causes may be given for the establishment of shops or stores. Peddlers began to be taxed and licensed. Taxes were levied on land but not on stocks in trade. Increase in production and increased earnings left the public with ability to support the purchase of more kinds of goods than those formerly carried by peddlers. Nor was the fair a fully satisfactory method of selling and buying goods. As the fairs and peddling declined, retail shops increased. In 1189, Fitz-Alwyne's assize stalls,

buildings housing numerous small shops, appeared. These may have been the earliest forerunners of modern department stores made up of leased departments. In the next two centuries these and other classes of shops multiplied.

These early shops were for the most part very small. The entire inventory of a mercer's stock in the thirteenth century would not average more than from 2 to 5 pounds sterling, from $10 to $25 in United States money.

The forerunners of the grocers were the spice dealers, who were generally Italians, or Lombards, as they were called, and were known as pepperers. Gradually they added more goods to their lines and became grocers. By 1376, there were not less than 48 different classes of retail shops in London.

Naturally these early places of retail business were not very pretentious in appearance. They were probably little better than tiny booths or stalls set off on the ground floors of residence buildings. As in the days of the Roman Empire and in the Orient they were probably open to the street without door or window during the daytime and closed at night by heavy bars or shutters.

Retailers in English cities grouped themselves in certain localities much the same as had the retailers in Rome during the Roman Empire. For example in London, during the thirteenth century, corn merchants gathered in the vicinity of what is now known as Corn Hill, fish dealers in Fish Street, metal work dealers in Lothsbury, goldsmiths in Cheapside, traders in Cannon Street and dealers in cooked and baked foods in Cook's Row near the Thames River bank.

**Distinction between "Merchant" and "Retailer."**—A distinction between the terms "merchant" and "retailer" began to be made in England in the early fourteenth century when the word, "merchant," came to be applied almost exclusively to importers, exporters, and wholesalers whereas the term "retailer" was applied to those selling in small quantities for consumer use. This distinction in terms, however, was not general. In Scotland and Ireland as well as in the early American colonies the term "merchant" continues to be applied to both wholesalers and retailers indiscriminately down to the present time.



**Origin of "Shops."**—The word "shop" appears to go back even farther in use than either merchant or retailer as a term for describing the place of business of a retailer. Its origin has been traced to the old Saxon and German languages. The original meaning seems to have been the porch, vestibule or lean-to of a residence. It is clear that for ages the porch or the front of the ground floor of residences served as the early retail stores both in England and on the continent. When most goods such as boots, fabrics, bread, ale, and other commodities were made by hand, they were made at home. Retail sales took place where the goods were made, hence the double application of the term "shop" in modern days both to factories and stores. The use of the term "shop" as a name for a retailer's stand goes back in England at least to the twelfth century.

**Medieval Department Stores.**—A large building divided into numerous stalls, much like Fitz-Alwyne's assize stalls of the twelfth century, was again established in London in 1570. The stalls were leased to individual retailers so that one might go from stall to stall and buy at retail all sorts of commodities, including foods, fabrics, shoes, clothing, furniture, jewelry, and other articles all under one roof. This building, known as the "Royal Exchange," was constructed by Sir Thomas Gresham, a financier and economist, and author of the well-known "Gresham's law of money." One of the tenants of Gresham's Royal Exchange was Isaac Walton, the angler, whose shop was 7½ feet long and 5 feet wide. These prototypes of leased departments in modern retail stores and of modern department stores spread to all parts of England, so that by the end of the seventeenth century there was scarcely a large city which did not have one or more.

**Retailing in England from 1700 to 1800.**—Judging from the existing descriptions of retail shops in England in the

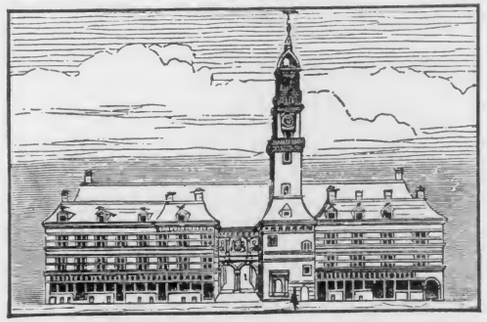

Figure 3. The First Royal Exchange, London, 1569
There were more than a hundred shops or booths for retail dealers in this building—the prototype of the modern department store.
From "English Merchants," by Fox Bourne: Chatto & Windus, London.

seventeenth and eighteenth centuries there had occurred great changes not only in retailing but also in the types of shops since

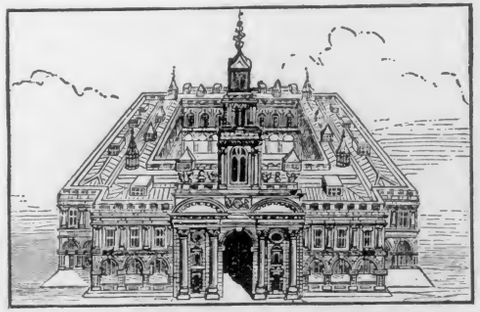

Figure 4. The Second London Exchange, Eighteenth Century
From "English Merchants," by Fox Bourne: Chatto & Windus, London.

the fourteenth and fifteenth centuries. Retailers now went to great pains to make their places of business exceedingly attractive and in the opinion of Daniel Defoe were too extravagant in their outlays for store fronts and fixtures.[9] This work presents an interesting account of retailing in England in the early part of the eighteenth century and was very widely read. It passed through many editions during the following hundred years. Other writers of the time also urged that retailers were spending more than they should on decoration, fine shelving, glass windows, fancy columns, and so on. Defoe cites instances in which retailers expended two-thirds of their capital investments in fixtures for their shops. Advertising came into use by retailers in the early eighteenth century. This was an age of wonderful sign boards and posters. Retail shops and inns vied with each other in displaying artistic, ornate swinging signs which clattered and squeaked in the breeze.



The retailer, his apprentice, or some other member of his family was constantly out before his shop and all day long cried out, "What do you lack, Sir," and "What do you lack, Madam," and followed by naming his goods offered for sale. It was frequently the chief function of the apprentices to spend a large portion of their time outside of the shops bawling invitations to buy.

Shops continued to specialize on individual lines as they had from the beginning, and were known by the lines carried as fruiterers, green grocers, grocers, butchers, wet salters, costermongers, who sold custards, cheese-mongers, fish-mongers, and so on in the food lines. Then there followed drapers, mercers, tailors, cobblers, hatters, ribbon dealers, perfumers, jewelers, and many others selling articles of apparel and adornment. In addition to the foregoing there were also dealers in almanacs, sealing wax and ink, combs, lanterns, socks, shoe laces, tools, and straps. Ale houses and coffee houses were numerous. An estimate indicates that there were 6,187 retailers in London alone in 1725, and Defoe estimated in 1727 that there were

[9] D. Defoe, "The Compleat English Tradesman," 1826.

Figure 5. Medieval Wine Shop
From painting by Tito Conti.

at least 2,000,000 people in England either directly or indirectly dependent upon retail trade for their living. These included masters and their dependents, servants, journeymen, and apprentices.

In economic views Defoe was a mercantilist and used his influence as a popular writer to promote the principles of mercantilism. He urged that the more hands goods passed through the greater advantage would accrue to the country. It was not considered true public interest to shorten or lessen the interests of trade or to sell the goods more cheaply to consumers. In the export business, however, Defoe recognized the necessity of meeting price competition of other nations not only by removing imposts or duties but also, if necessary, by export bounties. The tendency to eliminate middlemen, noted even in the early



part of the eighteenth century, was looked upon by Defoe with frank misgivings. Such elimination he contended would, if continued, throw a million tradesmen out of employment.

Defoe's descriptions of the pack-trains and wagons carrying raw materials and finished products over the highways of England are eloquent testimony of the advancement of trade in a period preceding modern railroads by a hundred years. Many of the trade institutions of the present day, such as traveling salesmen (who were then called chapmen), selling from sample, standardized credit terms, and even efforts at price maintenance, were well-established in Defoe's day.

**Origin of Fixed Prices in Retailing.**—Defoe has an interesting note on the origin of selling at fixed retail prices. This

Figure 6. Medieval Meat Market
Note scales, chopping block in doorway, and stock of meats hung on the backs of the door.
From painting by Luc-Olivier Merson.

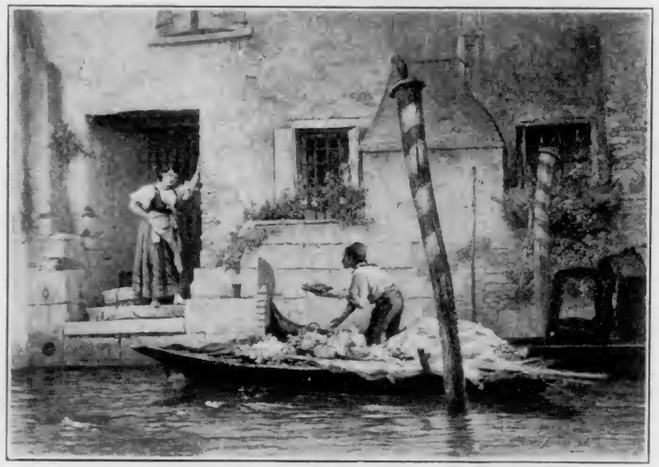

Figure 7. A Venetian Fruit Seller of the Nineteenth Century
From painting by L. Fildes.

practice, as he reports, began in England with Quaker retailers "who resolved to ask no more than they would take upon any occasion whatsoever and chose rather to lose the sale of their goods, though they could afford some times to take what was offered, rather than abate a farthing from the price they had asked." Defoe reports that the necessities of trade caused exceptions to be made in this policy even among the Quakers but not to the extent found among other dealers of that time.

There were many tricky methods in vogue among retailers in the eighteenth century, such as the passing of counterfeit money, which was plentiful in those days and which had been palmed off by customers on the retailers themselves. Every possible effort in selling to consumers was made to set off the goods to the best advantage not only by proper preparation of the goods but by the use of clever lighting arrangements or lack of lights as the case might require to secure the consumer's purchase. Overstatements and deliberate lying in the bargaining



process were apparently common practices. Defoe felt, however, that the bad name given to traders was in part due to traders themselves who followed the practice of running down and defaming each other in competition for the consumer's custom.

**English Retailing During the Nineteenth Century.**— Small shops with the exception of the "Royal Exchanges" which were really groups of small shops under one roof apparently continued to characterize the English retail trade down to the middle of the nineteenth century or even later. The retail trade was divided up among a great many lines of shops. One record indicates that at the middle of the nineteenth century there were 175 different kinds of shops where things were sold to consumers. This fine subdivision of retailing probably led to the deterioration and decline of the system.

A writer in the *Fortnightly Review* in 1875[10] states that

Figure 8. "French Market in Autumn" (Nineteenth Century)
From painting by Victor Gilbert.

[10] *Fortnightly Review*, Vol. 63, p. 123.

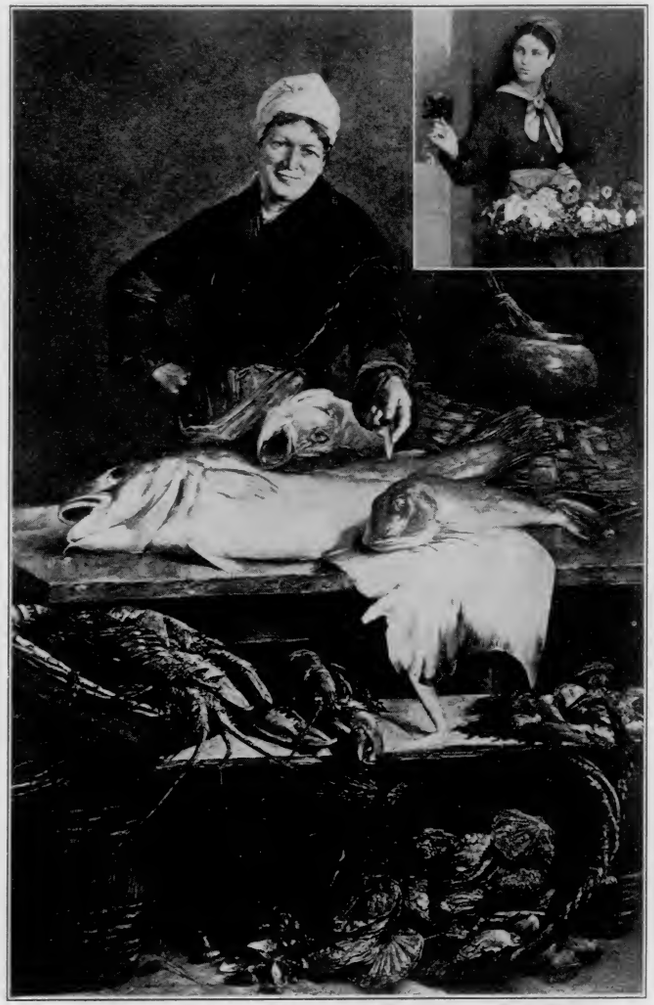

Figure 9. Nineteenth Century European Vendor Types: Fish Woman and Flower Girl





at that time English retail shops were small and inferior compared with retail shops in Paris and Vienna. Conditions had certainly changed, for while retailers had been criticized for overdisplay in 1725, by 1875 they were criticized for their poor displays. It is probable that popular opinion, or at least part of it, had outrun retail traders' notions of proper display methods. The writer states that shopping could only be carried on under great difficulties.

Long credits to customers prevailed throughout the entire period of the nineteenth century, but the system of selling for cash seems to have begun in England, as in the United States, in the early 1860's or 1870's as did the development of modern department stores and the employment of women as sales assistants.

Hours were long in the small shops. Retail stores were usually kept open from early morning until late at night. In the first department stores of England the average hours of labor were over 70 per week. A retail cooperative organization of Army and Navy Stores was the first in London to be closed regularly at 6 P.M.

The development of retailing in England since the middle of the nineteenth century has been much the same as in other European countries and as in the United States. What this has been will be seen in the next chapter dealing with the later stages of retailing in America.

# CHAPTER IV

## THE DEVELOPMENT OF RETAILING IN AMERICA

There have been at least five well-defined stages in the development of retail trade in America, as follows:

1. Prehistoric Indian trade.
2. The trading post period.
3. The general merchandise store era.
4. The period of rise and development of single-line independent specialty stores.
5. The modern period of growth of large-scale retailing involving extensive capital in such institutions as department stores, mail order houses, and chain stores.

These five stages have characterized the history of retail trade in practically all sections of the country. They were not, however, represented everywhere at the same periods of time. For example, the primitive trade of the Indians among themselves gave way gradually during the sixteenth and seventeenth centuries to trade with the whites at the trading posts. In the eastern section of the United States, trading posts began to be displaced by general merchandise stores during the eighteenth century. In the Middle West they continued until 1820 or even later, and in the Far West down to 1840. Indeed, trading posts are still to be found in isolated sections of North America, particularly in northwestern Canada and Alaska.

Specialty or one-line stores began to displace the general merchandise stores in the larger cities of the eastern part of the country during the years from 1800 to 1825. This change spread gradually to other sections and is continuing down to the present time. The general store still continues in many small communities, although its character has greatly changed during





the past twenty-five years. Large-scale retailing in department stores, chains, and mail order houses made its beginnings in the larger cities in the 1860's and 1870's, gradually replacing old-time general merchandise stores and even specialty stores. This movement is still at the height of its progress.

**Prehistoric Indian Trade.**—Prior to the coming of white men, America was populated by numerous tribes of Indians with varying degrees of culture and economic development. There are ample evidences of an extensive trade conducted within tribes and by certain tribes with others. It may be presumed that the extent of such intertribal trade depended to a very large extent upon the degree of economic advancement of the various tribes. The most progressive tribes, undoubtedly, enjoyed the greatest trade.

There were some Indians who were literally savages, who knew very few human arts and practiced these few in the crudest way, and therefore neither knew nor cared for the products of other tribes. If they wanted them they were not able to offer anything in exchange for them. They represented the lowest degrees of culture. On the other hand, there were tribes who cultivated the soil and raised corn and other products, in addition to hunting and fishing. Some had even begun the domestication of wild animals, particularly dogs, which they used as aids in hunting and as beasts of burden. These tribes had advanced considerably beyond the fishing and hunting culture stage and enjoyed an important trade with other tribes.

The commodities of commerce in the intertribal trade among the North American Indians consisted largely of foodstuffs, such as fresh and dried fish, dried meat, corn, furs, skins of wild animals such as buffalo and deer, articles of personal adornment such as eagles' feathers, bears' teeth, paint materials, beads, basketry, earthenware, pipes, stone arrowheads, and other implements. It is quite certain that Indians living near waters teeming with fish disposed of their surplus to other

tribes living inland. Indians living near salt marshes and salt springs bartered salt for other commodities. Quite probably, individual Indians, skilled in the craft of making stone arrowheads, stone axes, and birch bark or dug-out canoes, made these goods for others and received other commodities such as foods, skins, and ornaments in return for the products of their skill.

Only the existence of an extensive system of trade can account for the wide distribution over the American continent of such goods as copper implements, vermilion, and other paint pigments, eagle feathers, and wampum made of shells which must have come either from the Pacific or the Atlantic Oceans. Copper such as could only have come from the Lake Superior region was found among Indians scattered as widely as the Atlantic Coast and the Gulf of Mexico. Mica such as probably came from North Carolina has been found in the Indian mounds in Ohio. Pipe stone, of the kind used in making the Indian smoking pipes found among most tribes all over North America, must have come from the Minnesota and South Dakota areas where the only known deposits of this mineral are located. Eagle feathers, widely used in head-dresses of chiefs and braves, could only have come from those sections of the country that were the habitat of the eagle. Wampum shells, as has already been indicated, must have been carried inland from either the Pacific or Atlantic Oceans, probably from both. Copper bells and other objects found in the ruins of Indian villages in New Mexico, Arizona, and Colorado are believed to have come from the Aztecs in Mexico.

This primitive trade was conducted by means of an extensive system of Indian highways or trails, which extended for hundreds of miles over mountains and valleys. Many of these old Indian trails have since become the thoroughfares of the white man along which railway trains and automobiles now hurry. The rivers and lakes were likewise natural roads for the Indian canoes.

Apparently there was no established system of middlemen among primitive Indians. So far as is known, there were no retailers nor wholesalers, as such. Individuals or tribes with a surplus of dried fish or of buffalo skins dealt directly with other individuals or tribes in need of these commodities. Systematic, specialized distribution began with the arrival of white traders from Europe.



**Trade in America Under the White Race.**—Retail trade in America from its earliest stages down to the present has recapitulated to a large extent the development of retail trade in European countries from its earliest beginnings. In view of the primitive conditions in America at the time of its discovery and early settlement, it was not possible to transplant at once the systems of distribution of goods that prevailed in European countries. Parallel systems and developments came much later.

The first American trade carried on by the whites was with the Indians. The first retailing in America was conducted by itinerant traders from ships or canoes. The first retail institutions were trading posts at which commodities from Europe were bartered for furs, fish, venison, drug products, and other similar goods supplied by the Indians.

**The Trading Post Stage.**—The trading posts of pioneer America were much like the trading posts of the ancient Phoenicians and the late ancient Greeks along the shores of the Mediterranean. Adventuresome traders first made their voyages of discovery by water or by land, bartering as they went and hoping to profit from their expeditions. Later such traders made regular periodical visits encouraging the development of markets at which exchanges could be made. This stage was followed by the establishment of permanent trading posts with small colonies of traders and their assistants. Such was the origin of the Phoenician settlements in Sicily, Italy, Carthage, and Spain, and such was the origin of many of the early settlements on the frontier in America.

Among these early trading posts that afterwards became

important commercial cities were New Amsterdam (New York), Albany, Detroit, Chicago, Green Bay, St. Louis, Mackinaw, Astoria, St. Paul, and Des Moines.

The early explorers were nearly all commercial traders who came to exploit the fur trade of America. The difficulties of the French and the English nations during the seventeenth and early eighteenth centuries were primarily due to competition for the American Indian fur trade. The trader preceded the settler in all parts of the country. Trading posts were located at the head-waters of navigable streams, at portages, and at intersections of Indian trails long before there was any thought of utilization of the land for settlement, for grazing or agriculture. Radisson, LaSalle, Cadillac, Laclede, Langlade, Du Luth, were famous names among the French traders in America during these early years. Missionaries frequently followed the traders and helped to keep peace and to some extent to keep down the rapacity of traders who in some cases exploited the Indian trade to the fullest extent. Many of the missionaries combined trade with their religious calling. Among these were Fathers Joliet and Hennepin.

The earliest trade with the Indians seems to have been carried on under the fiction of the exchange of presents, just as had been the case in the earliest stages of trade in Europe and Asia. Traders appeared among the Indians offering hatchets, knives, awls, needles, looking glasses, bells, necklaces, bracelets, combs, beads, and bright paints which were ostensibly offered as presents. In return the Indians brought in skins of fur-bearing animals, particularly beaver, which was very much in demand in Europe during the seventeenth and eighteenth centuries. Later, the superfluous forms of present-giving gave way to actual barter and exchange on a bargaining basis. While there had always been, as has been indicated, a certain amount of trade among the Indians, the Europeans opened up outlets for furs and other products to such an extent as had been hitherto unknown. While the



Indians knew something about barter, they were certainly not a match for the early French, English, and Dutch traders who generally took advantage of their opportunities with the utmost ruthlessness. In time they developed a degree of sophistication. Under the competition of the French and the English traders, toward the opening of the nineteenth century, many were able to get more nearly what their furs and other products were worth. In the latter part of the trading post era, the Indians themselves, particularly the half-breeds, took up trading with the Indians with considerable success.

Both French and English companies established trading posts throughout the middle and western part of the American continent. These posts were scattered from the Atlantic to the Pacific and from the Arctic Ocean to the Gulf of Mexico. The French preceded the English in the Great Lakes region and in Canada, but the English sought to make up for their earlier delays by aggressive action and through the establishments of great trading companies such as the Hudson Bay Company, formed in 1670, and the Northwest Company, formed in 1783.

Shortly after the Revolutionary War, American business men became interested in the fur trade and sought to eliminate both French and English traders from the territory belonging to the United States. Benjamin Franklin, among others, was a strong supporter of steps to secure this trade. No other single fact was more important in influencing the declaration of the War of 1812 than the bitter rivalry of the American and English traders in the Great Lakes region.

Under the protection of the American government, and in fact with the government's cooperation and participation in many ways, the American Fur Company, owned by John Jacob Astor, established a preeminence in the Northwestern states extending to the Pacific Coast. The Lewis and Clark expedition was undertaken by the government as a means of opening up the Northwestern territory to American fur traders.

Indian trading posts on the Atlantic seaboard gave way to colonies of white settlements during the latter part of the seventeenth and early eighteenth centuries. Although the westward movement of settlers into the interior of America did not begin on a large scale until after the Revolutionary War, it continued well into the latter half of the nineteenth century.

Figure 10. The Pack Peddler—showing a popular method of retailing during early American history

Reproduced by permission from "Hawkers and Walkers in Early America," by R. Wright: J. B. Lippincott Co.

The effect of westward settlement, so far as trade was concerned, was to turn stores at Indian trading posts into general merchandise stores serving white colonists and settlers instead of Indians. The managers of the trading posts often remained in charge of the general merchandise stores. Many of these early general merchandise store owners in the Northwestern territory of the country were either French or French Canadians. A few were part Indian. Throughout the entire Middle



West there was also a strong sprinkling of Scotch-Irish whose adventuresome and ambitious spirits had carried them over the Appalachian Mountains into the Mississippi Valley even before the Revolutionary War. Many trading posts and, later, general merchandise stores, were conducted by these hardy pioneers.

**The Yankee Peddler.**—With the opening up of white settlements in the western wilderness there came the New England Yankee who traded with both whites and Indians but who specialized in trade with the whites.

Figure 11. The Basket Peddler and His Cart

Reproduced by permission from "Hawkers and Walkers in Early America," by R. Wright: J. B. Lippincott Co.

Numerous small industries had sprung up in New England producing so-called "Yankee notions," including such articles as pins, needles, hooks and eyes, scissors, razors, buttons, tinware, clocks. These commodities were more in demand in the new white settlements than among the Indians. Such goods were generally sold, at first, directly to consumers by peddlers, most of whom came from New England carrying their packs or tin trunks on their backs. Others came on horseback and, as the roads were opened up, with wagons drawn by two, four, or even six horses. The early nineteenth century peddlers' assortments included not only "Yankee notions" but also dry goods, hats, groceries, salt fish, firearms, ammunition, tools, patent medicines, horse liniment, spectacles, hardware, and even furniture.

The early peddlers were a wild lot, shrewd, dissolute, and famed for their trading ability. While criticized for their dis-

honesty just as the Phoenicians had been criticized 2,500 years before, their frequent periodical visits to the early settlements were looked forward to with keenest interest by both housewives and menfolk. Many of these itinerant peddlers later settled down as general merchants. Some stores still in existence in the Middle West of the United States trace their origin to Yankee peddlers of the early nineteenth century. General merchandise stores already established also added stocks of the items sold by peddlers to their regular lines and as time went on supplemented these stocks by additions of cotton and woolen fabrics, laces, pottery, glassware, house furnishings, clothing, shoes, spices, and a growing list of groceries.

**The Jewish Traders.**—The rapid development of the Middle West, rich with possibilities, attracted the attention not only of the people of the seaboard states but also of great masses of Europeans in England and Scotland, Ireland, and Germany. During the 1830's and 1840's, a flood of immigration came into the United States from these countries. It brought with it into the retail trade of the country a new element that was destined to become very important, namely, the German Jew. The German Jewish immigration formed a part of that stream of people who, under the oppression of illiberal governments at home and welcomed by opportunities in the New World, came to the United States during the early nineteenth century. Many of them immediately went into trade and commerce in the larger cities, others, equipped with peddler's packs, started into the regions of new settlements as the Yankee peddlers of the preceding years had done. Some even brought their packs of merchandise with them from Germany and Austria. Like the Yankee peddlers before them, several of these newcomers, in time, established themselves as general store merchants. The institutions which they started are now important factors in the retail distribution of goods in the United States, particularly in dry goods and apparel lines. Among the leading institutions with a beginning such as just described was that established by Adam Gimbel, founder of Gimbel Brothers, who began as a peddler with a pack on his back. His first place of business was a general merchandise store at Vincennes, Indiana. Later this was moved to Milwaukee where the store then

Figure 12. A New Orleans Sock Seller in the 1860's
From "Encyclopedia of Commercial Anecdotes."

started still remains. The Gimbel organization has since spread to several cities so that it now includes an extensive chain of modern department stores.

**General Merchandise Stores.**—The general merchandise store was the most characteristic retail institution during the transition period from pioneer life down to full-fledged eco-

nomic development and maturity. The general merchandise store remained the most common and the greatest outlet for goods to consumers even down to the twentieth century. It supplied practically all of the simple requirements of the early settlers, and as their incomes and prosperity grew the general merchandise stores also expanded to supply their needs up to recent years.

The general merchandise store is the common or prevailing type of retail institution wherever there are pioneer conditions. It has not only been an important factor in American development, but it has also been the chief retail outlet in other new countries such as Canada, Argentina, Australia, and South Africa. It is the ideal type of store for new settlements and communities on the way toward more highly developed economic life.

The old-time general merchandise store supplied its customers with dry goods like cotton, woolen and linen yard goods, notions, sewing supplies, handkerchiefs, skeins of cotton, wool and silk yarns, buttons, ribbons, and laces. Such stores also handled the common groceries including flour, sugar, tea, coffee, molasses, salt, spices, tobacco, vinegar and, in the early days at least, wine, beer, whisky and rum. It also dealt in hardware including the ordinary tools, nails, screws, hinges, locks, latches, axes, scythes, fish hooks, firearms, and ammunition. Finally, it provided such drugs and medicines as were in common use during the early and middle parts of the nineteenth century, including many which have since completely passed out of use. On the old order sheets and inventory lists one may find items such as Church's Cough Drops, Turlington's Balsam of Life, Bateman's Drops, British Oil, Steer's Opodildoc, Hill's Balsam of Honey, Godfrey's Cordial, essence of peppermint, Lee's New London Bilious Pills, Anderson's Pills, Hooper's Female Pills, Liquid True Blue, Maccaboy and Cephalick Snuff, Chemical Fire Boxes, stationery, blank books of various sizes, children's spelling books, common writing and



letter papers, Dutch quills, sealing wax, wafers, thumb lancets, spring lancets, gum lancets, green goggles, Bibles, and song books.

The general merchandise store in its early stages was usually a wooden structure with a high rectangular front, dingy little windows, rough counters and shelving. Indeed, in the early part of the nineteenth century in many general merchandise stores there were no fixtures at all. Many of these early stores kept their stocks of merchandise, including dry goods, notions, groceries, and liquors, in a locked box or chest which was opened and goods shown only when customers called. Later, shelves and counters came into use and boxes and barrels were piled up on the outside of the store. Salt, which always constituted an important item in sales of general merchandise stores in country districts was bought and sold by the barrel, and barrels of salt were generally stored on the outside under a shed or lean-to attached to the building.

The general merchandise store usually engaged in a general trading business. In many communities barter with the Indians continued at the same time that trade grew with white settlers. Money of any kind was very scarce and sales for cash were the exception rather than the rule. As had been the case in the old trading posts, all sorts of products were taken in trade, including furs, venison and other wild game, hides, meat, pork, dairy products, grain, lumber, hoop poles and staves for barrels, firewood, wild berries, maple sugar and ginseng, a root found wild in America which was dug, cleaned, dried, and shipped to China.

Long-term credits were customary in the general merchandise trade in all parts of the country. During most of the nineteenth century settlements on accounts were usually made annually. In some sections this period was shortened to six months before the opening of the twentieth century. It is difficult to see how the early pioneers could have managed

without the long-term credit accommodation given to them by these retail stores.

The general merchandise store was usually the location of the village post office. Often the store was run in connection with a tavern or inn supplying meals and lodgings to travelers. In many cases the general store merchant also ran a nearby farm and the business of the store was carried on by the wife and children while the men of the family performed the farm-work. The general store keeper was also very frequently the local justice of the peace or public notary.

For several generations in American life, the general merchandise store served as the village social center for the men. The old box stove, the rickety chair or two, the flour barrel and the sawdust spit box were the almost universal furnishings that equipped it for its social services. Here politics, religion, and neighbors were discussed. It may not be too much to say that here the tariff question, government bank, internal improvements, foreign policies, and other important national matters were ultimately settled. American statesmen for many years had to reckon with the force of public opinion generated and cultivated around the stove of the country store. With all its inefficiency, its wasteful methods, and its shortcomings as a retail establishment, it must be said that it successfully served its day as probably no other type of institution could. Many general stores still exist and will for years to come, but with increasing density of population and rising standards of living the general store as such is giving way to other types of retail institutions.

**General Merchants Bought Their Goods in the East.**—In the early and middle periods of the nineteenth century, the general merchandise stores east of the Mississippi River got most of their goods from New York, Philadelphia, and Baltimore. Prior to the coming of the railroads, goods were transported by wagons and the roads leading westward in the 1820's



were often crowded with vans carrying merchandise for western stores. Much of the fabrics and other dry goods as well as hardware, tools, cutlery, and firearms were imported from abroad. Groceries consisted for the most part of salt, brown sugar, rice, bohea tea, and salted, pickled, or dried fish brought from the seaboard. Flour was produced in many local mills scattered throughout the entire country, from wheat raised near at home. Soap and candles were usually made at home but toilet and shaving soaps and perfumes were bought at the stores.

In order to obtain supplies, the general store merchant usually went east on a buying trip once a year. As late as 1825, nearly every retailer in the United States visited the eastern seaboard markets for goods only once a year. Toward the middle of the nineteenth century it began to be the custom for the better merchants to go twice a year. This trade from inland flowed to Boston, New York, Philadelphia, and Baltimore, but during the early decades of the nineteenth century New York, because of its advantageous location, began to gain in prestige and volume of business over Boston and other ports. By the middle of the nineteenth century it had gained a position of preeminence over them all. New Orleans was similarly the wholesale market for the southern part of the Mississippi Valley and the Southwest.

**European Dumping on American Market and Auction System.**—Following the War of 1812-1814, goods from Europe, particularly from England, were dumped into the New York market in large quantities. To effect prompt sales these goods were generally auctioned to any one who would buy them, to the great discomfiture and dissatisfaction of the numerous importing houses then located in New York. Country general merchants crowded these auction sales and in many cases overbought, so that the system not only hurt the importers but many of their customers as well. The goods included

in these sales were such as Yorkshire cloth, Scotch muslins, plushes, taffetas, jackonettes, blankets, bed covers, and a great variety of hardware, tools, novelties, and notions.

Auction selling of imported goods continued for several years following 1814. As a consequence, many auction firms came into existence and many of the old importers and jobbers were ruined. The practice of dumping foreign goods in the American market and of selling them for what they would bring by auction aroused a great deal of enmity toward foreign goods, not only among American manufacturers but also among American merchants as well. This feeling crystallized into a demand for protective tariffs which later became a regular part of American commercial policy.

**Specialty and Single-Line Stores.**—Specialty shops and stores handling but a limited line of goods began to appear in the larger eastern American cities very early in the history of the country and followed gradually throughout the nineteenth century in the medium-sized and smaller communities of the country. The specialty stores established in American cities were much of the same type and pattern as the small shops found in England and other countries in Europe then making up the most important channels of distribution to consumers for most goods. The one-line store came into existence largely because of the inability of the general merchandise stores to meet the requirements of their respective communities for specialized services such as could be given by apothecaries, milliners, dressmakers, hardware dealers, cabinet makers, and so on. The general merchandise stores and specialty stores, however, continued to get along together and for many years were the principal outlets for goods of all classes to consumers.

**Large-Scale Retailing.**—Shortly after the middle of the nineteenth century there were simultaneous beginnings of several new types of retail institutions which in our time have come to occupy a very important place in the retail distribution

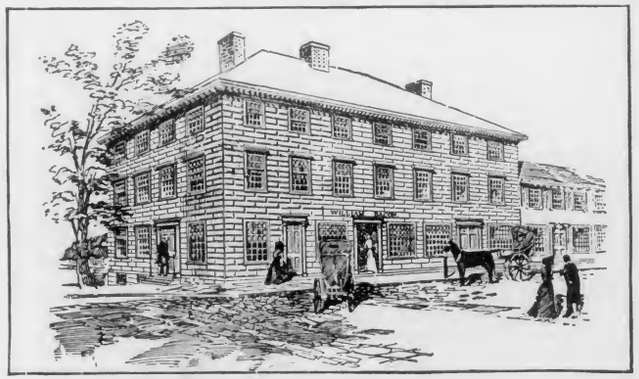

Figure 13. The Oldest Dry Goods Store in Boston, at Washington and Ruggles Streets, Established in 1814
From "Old Boston Post Road," by Stephen Jenkins.

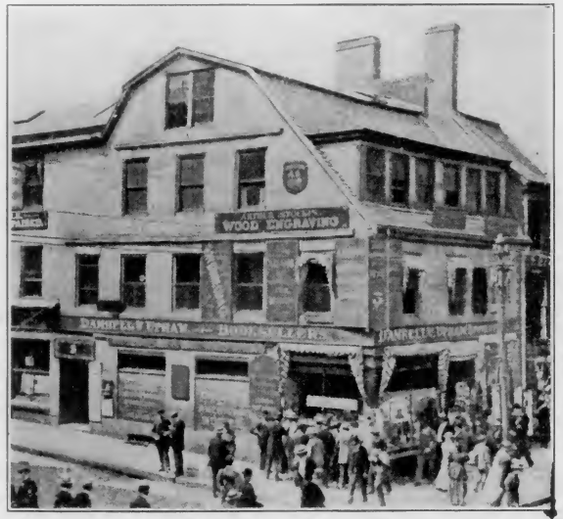


Figure 14. Old Corner Book Store, Boston, Established in the Early Nineteenth Century (Photograph taken in 1895)
From "Old Boston Post Road," by Stephen Jenkins.

of goods. Among these were the department stores, the mail order houses, and the chain stores. The origins and development of these institutions will be traced in following chapters.

**Changes in Activities of American Merchants.**—At the close of the Revolutionary War and for many years following, retailing occupied a minor place in the minds of men of affairs. Many prominent business men of the times began their careers

Figure 15. The Wm. Sherman & Co. Dry Goods Store, Newport, R. I. Established in 1796 as a dry goods and crockery store. Building was in continuous use down to 1911. Photographed in 1881. This cut was reproduced from a photograph courteously supplied by Mrs. A. K. Sherman.

in the retail business or as retailers' apprentices but branched out into other lines of business that offered greater prospects for business genius. In some cases, the retail business contacts were maintained, in others they were given up. In the early years of the Republic, young men trained in business branched out and expanded into shipping and importing. Others went into banking.

Typical of the development of merchandising in New England, Amos Lawrence and his brothers served their apprenticeships in retailing and for many years, during the early part

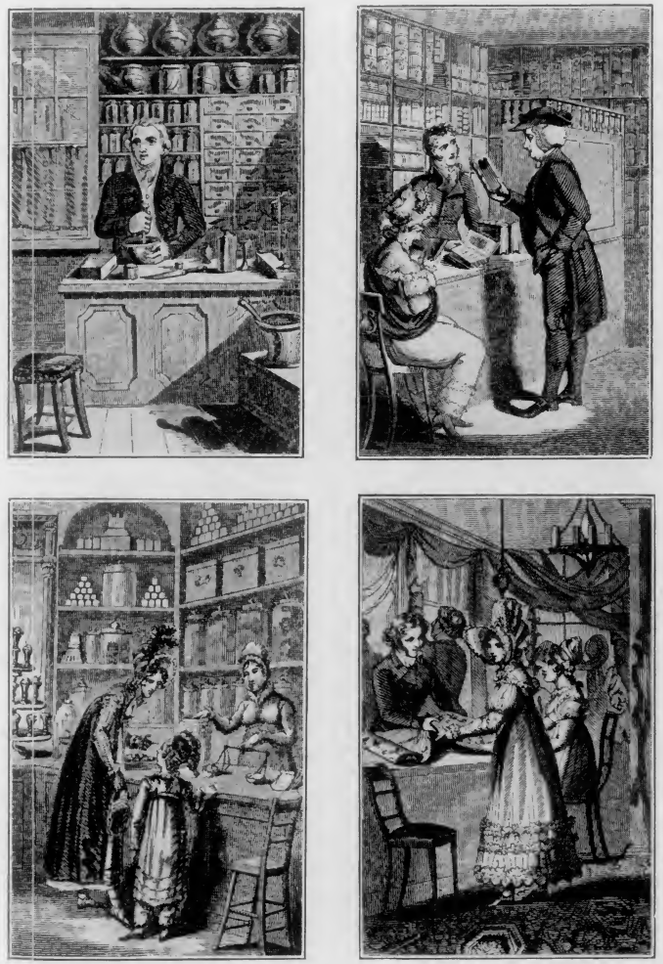

Figure 16. Interesting Views of Retail Shop Interiors of the Period of 1835

of the nineteenth century, conducted a dry goods business in Boston, but their activities expanded in the ownership and operation of a number of fast-sailing American ships engaged in maritime commerce. Other members of the family very early entered into the cotton manufacturing industry with which the name of Lawrence has since been closely associated.

In Philadelphia, Stephen Girard began his business career in the retailing business but expanded into the ownership and management of ocean shipping and later into Philadelphia banking and real estate.

John Jacob Astor, an immigrant from Germany, served his apprenticeship in a New York fur establishment from which he finally withdrew and went into the business for himself. In the years following he developed a wholesale and export fur business of the largest proportions. He, too, engaged in ship-owning and ocean trade, particularly with China.

George Peabody was a native of New England, who made his beginning in the retail business in Georgetown, Maryland, and later engaged in wholesale trade in Baltimore, developed into international banking, and during the 1840's and 1850's became one of the leading financial figures, so far as American finance and trade were concerned, in London.

During the second quarter of the nineteenth century and for fifty years thereafter, retailers who succeeded sought outlets for their ambitions and energies in wholesaling. There was hardly a big retail organization in any part of the United States between the years 1835 and 1900 that did not have a wholesale department or, indeed, in which the retail store did not become merely a department of the wholesale business.

Well-known retail concerns whose origins go back to the middle of the nineteenth century, or before that, nearly all had wholesale connections. Arnold, Constable & Company, Lord & Taylor, and A. T. Stewart, in New York; John Wanamaker and Strawbridge & Clothier in Philadelphia; Jordan Marsh &

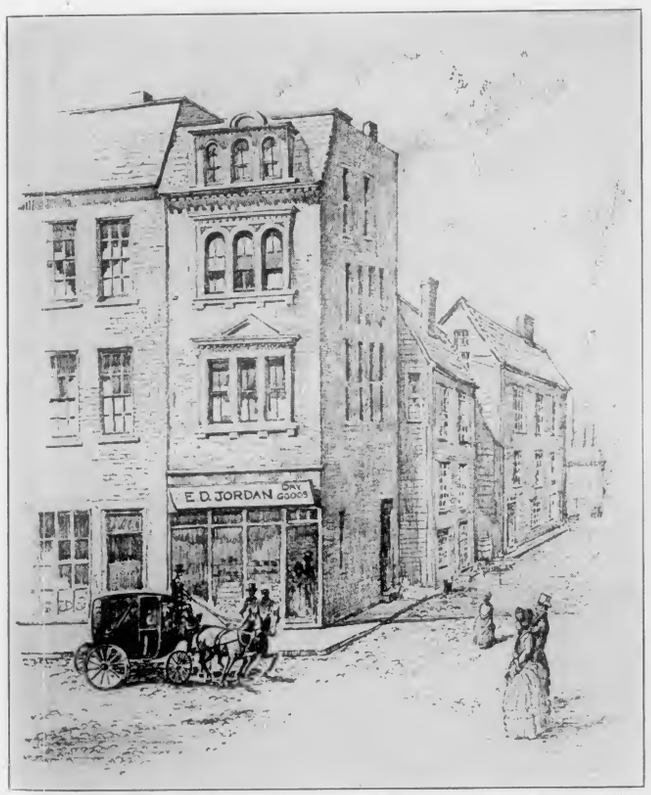


Figure 17. The First Dry Goods Store of Eben D. Jordan, Boston, 1841
From "Retail and Romance," a pamphlet by Julia Houston Railey, published at the time of celebration of its Diamond Jubilee, January, 1926, by Jordan Marsh Company.

Company in Boston; Marshall Field & Company and Carson, Pirie, Scott & Company in Chicago, to name but a few, conducted flourishing wholesale businesses during the middle and latter part of the nineteenth century. In the case of the two Chicago concerns named, these have continued down to the present.

With the arrival of the large department stores, the mail order houses and the chain store systems, the retail business offered opportunities for expansion and for the exercise of greater organizing and managing abilities than had hitherto been known. Instead of retailers in these types of businesses going into shipping, importing, banking, wholesaling, or manufacturing as they formerly had done, their energies have been completely absorbed in the opportunities for expansion within the retail business. During recent years there has been a considerable movement of importers, bankers, wholesalers, and manufacturers into retailing.

**Changes in Wholesaling.**—Prior to 1860, as indicated in a preceding section, retailers throughout the country replenished their merchandise stocks by annual or semi-annual trips to wholesale market centers. During most of the nineteenth century, Boston served as the wholesale center for the New England trade; New York City for the retail trade in New York State, northern Ohio, Indiana, and Michigan; Philadelphia served Pennsylvania, much of the Ohio Valley, and even St. Louis; Baltimore came to be the leading wholesale distributing point for the southeastern states as far west as Alabama and Mississippi; New Orleans was the wholesale distributing center for the Mississippi Valley as far northward as the mouth of the Ohio, including western Tennessee and Kentucky, Arkansas, and Louisiana. Cincinnati and Chicago began to be wholesale distributing points in the 1840's and 1850's. St. Louis, which had been the center of the early fur trade extending over the entire Missouri Valley, began to be



an outfitting place for retailers very early in the nineteenth century.

When the Civil War opened in 1861, many of the trading channels were perforce changed considerably. Baltimore lost its southern trade although it was able to regain a large part of it after the war. The Philadelphia trade was seriously hit along the border states. New York trade with the West grew tremendously.

Traveling salesmen had been employed to some extent during the 1850's, but during the Civil War period the New York importing and wholesale houses began to send out traveling salesmen on a large scale. This practice grew very rapidly in the 1860's. In the development of the West following the Civil War, through the later 1860's and 1870's, the system of selling goods through traveling salesmen became a fixed institution. In the meantime periodical trips to market by general store merchants declined.

During the 1870's and 1880's, the department stores began to be important in the larger cities. These stores from the start sent their buyers to market to buy some part of their stocks directly from manufacturers. Instead of semi-annual trips, however, the department store buyers, particularly of the ready-to-wear departments, made even more frequent visits, as often as once in every two or three months and later as often as once a month. The early department stores continued to purchase many of their goods directly from wholesalers and through traveling salesmen, but during the past fifty years the volume of purchases made from traveling salesmen and from wholesalers has steadily declined. It has been a consistent department store policy to buy more and more of its goods directly from producers and to have its buyers ransack the markets for suitable goods at the lowest possible prices.

**Buying from Traveling Salesmen.**—The earliest traveling representatives of wholesalers and importers were credit men or

representatives of credit departments. The panic of 1837 taught American business men caution. Following this business crash, credit men began to visit retail customers periodically, to learn how they were getting along, to collect money due, to extract settlements from delinquents, and to make friends for the wholesale or importing house among those not already customers. This method naturally proved expensive and could only be considered as an emergency arrangement. Gradually these commercial travelers whose early function it was to secure payment for goods already bought began to take orders for goods for future shipment as part of their regular duties.

**Founding of Dun's and Bradstreet's.**—In the meantime other sources of information on the credit standing of retailers were devised. Shortly after the panic of 1837, a Mr. Church established a bureau of credit information in New York whose purpose it was to serve wholesalers who desired information concerning out-of-town merchants buying from them. About 1840, the first mercantile reference book was issued. The first mercantile agency was established in 1841 by Lewis Tappan in New York. A second was established in 1842 under the name of Woodward and Dusenbury. The Bradstreet Company was founded in 1849 by J. M. Bradstreet, who, as a traveling representative previous to 1849, had collected a great deal of information about his own customers. Later the firm of R. G. Dun and Company came into existence, taking over the business built up by Lewis Tappan. Other concerns entered the field and for years the competition was keen, but the two last-named are now practically alone in the field of general mercantile agencies. To a certain extent special industries are represented by special credit-reporting agencies.

**The Mercantile Agency.**—The mercantile agency is a purely American institution. No country in Europe has anything like it. In England, banks furnish their customers with information concerning the standing of parties in trade, but in this country the development of this function among the early banks was next to impossible. In the first place, the banks were in too precarious conditions themselves. They were failing and suspending specie payments on every hand. Consequently the banks were subject to great suspicion at the times when the need for mercantile credit information was strongest, namely, during and after the panics of 1837, 1843, and 1857. The country had grown so rapidly in trade, and particularly in the extent of territory over which this trade was transacted, that the small banks of the wholesale centers of the time had neither the incentive nor the ability to keep track of commercial conditions in such a way as to be of real service to the commercial interests of the country.



Another reason why the banks of this country did not develop the credit information function for their wholesalers, was that there was no central bank through which such information could be collected for the whole country and transmitted to the places where it was needed. Thus the mercantile agencies came into successful existence.

**Opposition to Agency Methods.**—Naturally there was considerable opposition to the methods of the mercantile agencies. It was considered an imposition by many retailers to have a third and outside party prying into their business affairs. Every attempt to get information directly by these concerns was opposed by large numbers of business men. Magazine and newspaper articles were written against the system. Even as late as 1896 a book appeared, violently opposing the agencies, entitled "The Mercantile Agencies Against Commerce: Are We a Nation of Swindlers and Liars?", written by W. Y. Chinn. This spirit has now largely passed away. Antagonism toward the agencies has been largely replaced by confidence. Most merchants today furnish the mercantile agencies with

signed statements showing the exact condition of their respective businesses.[1]

**The Drummer Becomes a Salesman.**—There was another type of employee in the early wholesale and importing houses, known as the "drummer," whose work finally developed into traveling salesmanship. The drummer, at first, was employed to hang around hotels and watch for the arrival of retail merchants from out of town. When a merchant arrived he became the special recipient of every kind of appeal to get him to come to the house represented by the drummer. "The country merchant is booked on his arrival, is captivated by courtesy, is attracted by appeals to each of his appetites and passions, is coaxed, decoyed, and finally ensnared or captured." [2]

Later, as competition among the wholesalers grew keener, the drummer was sent out to see retailers in their home towns, to get their promise to come to the house when in the market, and to take orders whenever possible. As the practice of small-town merchants going to market declined, the work of selling to the retailer in his own store or home became more and more important. Today, a very large part of the purchases of general and specialty stores are made through the medium of traveling salesmen.

As early as 1860, a number of traveling salesmen were employed by wholesale houses in New York, Chicago, Cincinnati, and other jobbing centers.[3] After the Civil War their number increased very rapidly. Chicago wholesale houses sent their representatives out over the western prairies, beyond the terminals of railroad and steamboat navigation. Traveling salesmen, with their trunks loaded on wagons, followed the pioneer trails to mining camps, lumber camps, trading posts, and everywhere that a store existed. Some of them, before railroads were built, drove wagons loaded with trunks of samples across the mountains to Utah and even to the Pacific Coast. Chicago's supremacy over St. Louis as a wholesale center was largely due to this early hustling. The eastern drummer in the Northwest was declared to be a thing of the past in a statement made in the *Chicago Tribune* Annual Review of Trade and Commerce in 1869.

[1] P. R. Earling, Whom to Trust, pp. 295-304; J. Boulter, "Mercantile Agencies and Their Work," in Trade and Commerce, pp. 372-394; E. D. Masterson, The Mercantile Agency, in *Modern Merchandising*, Vol. VI, pp. 87-92; *Bankers' Magazine* (1858), 12:545; *Hunt's Merchants' Magazine* (1851) 24:46.

[2] E. T. Freedley, United States Mercantile Guide (1856), p. 204.

[3] *Bankers' Magazine*, 12:545 ff.; Briggs, Fifty Years on the Road, Ch. II; M. M. Yeakle, St. Louis of Today, p. 315.



**Rise of Advertising.**—The use of extensive newspaper advertising by retail stores began in the United States about the middle of the nineteenth century. The first full-page advertisement however did not appear until 1879. This advertisement was placed by John Wanamaker in Philadelphia on the event of the return of General U. S. Grant from his trip around the world. Not until several years later, however, did the practice of using full-page advertising become common.

Daily newspapers in most cities also date the beginning of the growth of their influence and power to this same period. Probably the department stores of the country could never have become important in retail distribution were it not for the help given by newspaper advertising. Similarly the newspapers could never have reached their present development were it not for the patronage of retail store advertising, but more particularly the department store advertising. No class of retailers has exploited newspaper advertising to the extent that the department stores have.

**Rise in Use of Branded Goods.**—The rise in the use of advertising in both newspapers and magazines carried with it a very rapid development of promotion and sales of branded goods. Dry goods, clothing, groceries, drugs, and hardware were fields in which trade names were extensively adopted and promoted. Retailers' and wholesalers' stocks began to be much more complicated than they had been hitherto because of the multiplicity of brands.

**The Fight for Price Maintenance.**—The introduction of a great many brands of goods widely advertised at various retail prices soon led to price-cutting of such goods as leaders or bait to induce consumer patronage. Violent controversies among retailers and between retailers and manufacturers began as early as the 1870's. The department stores were generally mentioned in these early controversies as the most aggressive price-cutters of branded goods. Later there began to be complaints against occasional individual specialty retailers such as druggists, variety stores, grocers, and hardware dealers, but the local character of trade of these small stores was such that most of the agitation for price maintenance was directed toward the control of the sale of branded goods in the department stores.

One of the chief purposes of the establishment of the early trade associations, such as of the wholesalers and retailers of drugs and groceries, was to curb price-cutting. Several plans were drawn up and tried out. Among these were the "Campion Plan" of the early '80's, named after a retail druggist in Philadelphia who suggested it, the "Tripartite Plan," and the "Coupon Plan." Most of these plans were continued in one form or another down to the 1900's, but were finally ended by adverse legislation and court decisions.

**Other Retail Trade Policies.**—The last half of the nineteenth century saw the effective introduction of several other new policies in retail trade, including movements for insuring accuracy and honesty in advertising, the wholesale employment of women as salespeople, the general adoption of the one-price policy, the discarding of bargaining and higgling with customers, the elimination of the barker or "puller-in" at the store entrance, the establishment of odd cent prices and, the gradual shortening of consumer credit from yearly to six months settlement periods, and then from six months down to thirty days settlement periods.



During the past twenty-five years, by a gradual process of education, a large proportion of the charge account business done by retail stores has been reduced to a thirty-day settlement basis. Since 1920, the rapid spread of instalment selling in many lines of consumer goods has again opened up the problem of long credits. Not the least of the objections urged against instalment selling has come from the older credit men of retail stores who have spent a lifetime in developing short period settlements.

Figure 18. Interior of a Mid-Nineteenth Century Dry Goods Store
Note that the store was heated by means of a primitive coal stove and lighted by oil lamps.

The last twenty-five years have definitely fixed the policy among American retailers that the store is for the consumer

and not the consumer for the store. Retail stores now generally work under the policy that the "consumer is always right," whereas formerly *caveat emptor* was the rule. Customers were urged, implored, or even forced to buy. Shopping in modern retail stores has been made a pleasure free from any sort of coercion. Goods are sold with unlimited guarantees and dis-

Figure 19. Interior of the Wm. Sherman & Co. Dry Goods Store in Newport, R. I., in 1906
Reproduced from a photograph courteously supplied by Mrs. A. K. Sherman.

satisfied customers can generally effect exchanges or get their money back on any basis of fairness.

Very great advances have been made in store planning, architecture, and layout. Early stores of all kinds were generally makeshift, box-shaped buildings with no special thought or planning for the specific requirements of retailing. Probably the first big retail store building to receive anything like scientific planning was the A. T. Stewart building at Ninth Street and Broadway, New York City, finished in 1863. This building still stands as a part of the New York John Wanamaker store. In the years following, retailers gradually worked away from the archaic Victorian types of store construction and developed a truly new and unique type of architecture. With the invention of elevators and the use of electricity for lighting, there began a period of store construction of the type found in modern department stores and even in specialty shops which will undoubtedly go down in the history of architecture as one of the most remarkable in business buildings.



In the matter of store operation, perhaps the most striking development during the past generation has been the creation and effective use of statistical control of merchandising by means of cost accounting, standardization of expenditures, and merchandise stock control.

From a merchandising standpoint, the outstanding movement during the past ten years has been the recognition of fashion as a factor in merchandising, the study of fashion movements, the employment of fashion specialists as assistants in merchandising, and the appeal to consumers by offers of fashion rather than the old-time offers of quality and price.

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INTENTIONAL SECOND EXPOSURE



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# CHAPTER V

## THE INDEPENDENT RETAIL STORE

The retail store, independently owned and without connections with other retail stores, wholesaling or manufacturing concerns, has been and still is the typical American retail institution. Such stores are owned and operated by individuals, by partnerships, or by corporations. Out of 1½ millions or more of retail stores of all kinds throughout the country, it is certain that more than three-fourths are independent stores. The volume of business transacted by independent stores does not, however, equal this proportion of the total business, for the reason that there are a great many very small independent stores. It is believed, however, that as of 1929 perhaps 55% of the entire retail sales volume of the country is transacted through independent retail stores. If, as has been estimated elsewhere, the total retail sales volume of the country amounts to about 45 billions of dollars, then the total through independent stores is probably nearly 25 billions.

**Classes of Independent Stores.**—Independent retail stores, as indicated in Chapter II, are distinguished from branch stores, chain stores, cooperative stores, and voluntary chains. There are many varieties which may in turn be classified according to the type of business carried on, the kinds of merchandise carried, the locations occupied, and territory served. In the following pages some of the more important special types of independent stores will be defined and discussed, followed by an analysis of some of the distinguishing characteristics of present-day independent retail institutions.

**General Merchandise Stores.**—The general merchandise store was the typical store of the early American communities.

It took care of the needs of the early settlers and, at the same time, gradually displaced the trading posts and peddlers. The general merchandise store aimed to carry whatever merchandise its customers needed, including food, clothing, hardware, operating supplies, drugs, and so on. Its purchases and sales in any given line were naturally limited. There could be no specialization either in merchandise or service. The strength of the general merchandise store lay in serving people of limited means and limited requirements. Its advantages included its simple assortments of goods, its location, its long-term credits, and its low operating costs.

There are still many general merchandise stores throughout the United States, but for many years they have been changing steadily to other forms. Some have given up carrying general lines and have become single-line stores with such lines as groceries, dry goods, shoes, or hardware. Others have grown and have developed into department stores.

**Examples of Successful General Merchandise Stores.**—As an indication of the possibilities of developing successful general merchandise stores through skilful management, by changing their methods of operation to meet changes in consumer demand the following well-known stores in smaller towns are noteworthy:

Garver Bros. Company of Strasburg, Ohio, was established as a general merchandise store in 1866. Strasburg is now a town of only 1,200 population with several large cities within easy motoring distance. This general merchandise store, really a country department store, through the application of excellent modern methods of management, enjoys sales of about $1,000,000 a year.

Fred P. Mann of Devil's Lake, North Dakota, a town of about 5,200 population, began some years ago with a general merchandise store and has built a retail business having sales in excess of $500,000 a year.



The Outlaw Trading Post of Winner, South Dakota, a town of 3,000 population, has a sales volume of $850,000.

The Lynden Department Store in Lynden, Washington, a town of only 1,250 people has a sales volume of $750,000.

The Schaeffer Mercantile Company in Hillsboro, Kansas with a population of 1,500, has a sales volume of $200,000.

Ortho Mooney of Temple, Oklahoma, a town of 900 population, is reported to have sales in excess of $1,250,000 a year. During the latter part of 1929, this store was sold to Sears, Roebuck & Co., the large mail order and chain store concern.

R. T. Holman, Ltd., of Summerside, Prince Edward Island, Canada, a town of 3,300 population, has annual sales of over $2,000,000.

The Hand Trading Company of Pelham, Georgia, another town of 3,000 population, enjoys sales reported to be in excess of $2,000,000 yearly.

Fred W. Anderson, Cozad, Nebraska, a town of 1,300 population, has sales in excess of $325,000 a year.

The Raleigh Hardware Company of Beckley, West Virginia, a town of 8,000 population, has sales of over $700,000 a year.

No doubt there are many other general merchandise stores that have achieved similar success under limited opportunities.

**The Independent One-Line Stores.**—Retail stores handling but one or a few lines of goods closely followed on the heels of the establishment of the general merchandise stores in American communities. Such retailers have from time immemorial been the chief sources of supply of consumers in the older countries in Europe. The single-line retailer, whether a grocer, fruiterer, confectioner, butcher, baker, jeweler, draper, druggist, or toy seller, is the direct lineal trade descendant of the merchant artisan who formerly both produced and sold these goods from his shop. In many of these special lines, a certain amount of specialized knowledge and skill is

required. The work of a butcher may be compared with that of any other skilled trade. The jeweler's work is likewise a trade, the druggist must have a certain education and must pass an examination before he may be licensed to practice his profession. On the basis of such specialization, retail trade in these lines developed, and despite the rapid growth of department stores and mail order houses, which tend to obliterate these lines, most of the druggists' preparations are still sold through drug stores, most shoes are sold through shoe stores, and most of the jewelry is sold through jewelers.

**Specialty Shops.**—The term "specialty shop," frequently used, is applied to a type of independent store specializing in such goods as women's apparel, millinery, shoes, hosiery, lingerie, and so on.

The term is not generally applied to all single-line stores. It is not used in connection with grocery stores, meat markets, hardware stores, drug, or furniture stores. It is applied more specifically to single-line stores located in central shopping districts and carrying lines of goods in competition with the types of goods handled by department stores.

Methods of merchandising in specialty shops are much the same as in the departments carrying similar goods within department stores. Many owners and managers of specialty shops in the larger cities were department-store trained. Their specialization in one or a few lines, however, contributes to success in serving particular customers. The detailed methods of operation of specialty stores are considered in connection with the methods of other types of retail institutions in the various parts of this book.

**Full Service Retail Stores.**—Independent retail stores vary greatly in the services offered to the public. Retail credit and delivery services are to be discussed in detail in Volume II, "Principles of Retail Store Operation," and therefore need only to be mentioned here to complete the general classifications.



Most department stores, and a large majority of independent retail stores, are full service stores.

**Cash and Carry Retail Stores.**—Retail stores that grant no credit and offer no delivery service have enjoyed widespread growth during the past generation. The limitation of retail service by the elimination of charge accounts is based on the good, sound economic theory that goods should be paid for before, or certainly not later than the time that they are consumed. Groceries, meats, fruits, and vegetables and other articles for immediate consumption are the types of commodities in which the growth of cash and carry retailing has been most rapid.

There are economic bases for the extension of consumer credit on the purchase of homes, automobiles, washing machines, musical instruments, tools, or equipment. Such goods last a long time. They are not immediately consumed. Though they depreciate, the rates of depreciation are such that payment methods may be adjusted so that the repossession value of these goods is always higher than the outstanding amounts due. Consumer payments are made for such goods more rapidly than their values are destroyed or consumed. Time or instalment payments are entirely appropriate in such cases and, although authentic statistics are lacking, it is likely that the total volume of credit sales in such commodities is slowly increasing.

The cash and carry method of retailing is the basic method of most chain store systems. There are, however, exceptions in this. There are instances of highly successful chains doing business entirely on credit, and others enjoying both a cash and credit business. An all cash method of selling has been considered fundamental to the success of consumers' cooperative stores, and many consumers' cooperatives have gone to pieces over the failure to observe this rule. Departure from an all cash basis has been found necessary in many cases.

Certain commodities and services are generally sold for cash, whether through chains or independent organizations. There is relatively little charge account business, the country over, in cigar stores, confectionery, soft drinks, moving pictures, and even in drug stores. Roadside markets, which apparently are growing in importance, are conducted on a cash basis. A large part of the mail order business of the country is likewise on a cash basis.

It may be roughly estimated that perhaps half of all of the retail business of the country is conducted on a cash basis.

Consumers are urged to change from a credit to a cash basis of buying commodities, on the grounds that cash buying encourages thrift, prevents overbuying and consequent distress, and most of all, makes it possible to buy goods for lower prices. The advertising of cash retail concerns points out that the credit business tends to deprive the consumer of his freedom to buy and choose what he likes, that the debtor customer is held closely to account by his creditors, and that the finances of many families have been ruined by the credit business.

Probably the most important argument in favor of the retail cash business is its lower selling expenses and the consequent possibility of fixing prices somewhat lower to consumers. Conducting a retail business on a cash basis eliminates all expenses for charge accounting, and collection, and losses from bad debts. The amounts of such costs vary considerably. There are efficiently conducted retail stores in which these costs range as low as 1% of the total credit business and others in which the costs are many times higher than this. Inability to control the costs and losses of a credit business is a highly frequent cause of retail business failure.

As indicated above, the elimination of these costs makes it possible to fix somewhat lower prices on the goods offered to consumers and still maintain the same ratio of net profits, as do the dealers who grant credit. The cost of delivery service



may likewise be eliminated and may be offered to the public in the form of lower-priced goods.

It is not possible, on the basis of such information as is available, to present anything but estimates of the differences in expenses due to the elimination of these surpluses. In the chapter on "Expenses in Retailing," in the author's "Principles of Retail Store Operation," differences in operating expenses are shown between stores granting credit and delivery service and those that do not. For meat markets, as a general average, it is probable that, in efficiently conducted establishments, the costs of operating charge accounts amounts to from 2% to 4% of sales. Delivery expenses probably amount to a similar percentage on goods actually delivered.

The percentages usually given in published statements to show the costs of handling charge accounts and of delivery service are based on total sales and are therefore misleading, as the total sales almost invariably include a high proportion of goods bought for cash and carried by the customer, not delivered. Accurate figures on actual differences in costs are not available. It may be estimated that a retail store carrying charge accounts and making deliveries will average from 3% to 6% of sales in higher expenses than one with a similar volume of business without such service. Other things being equal retail prices may, therefore, be reduced by this much in a strictly cash and carry business without affecting net profits.

The growth of a cash and carry system of retail store service, apparently, indicates a fundamental trend in consumer demand. At any given time it may be presumed that many people prefer and are willing to pay for charge account privileges and delivery services. Cash and carry, with its modest savings in retail prices, is not a sufficient inducement to make them change their places and habits of doing business. Many people do not prefer the cash and carry system for the reason that their purchases are made by servants or by children. In either case it may be inconvenient, or there may be danger

of loss if the servants or children are supplied with cash with which to make purchases. However, apparently the cash and carry method has gradually gained ground over the full service types of retailing, indicating that an increasing number of people have found a more limited type of retail service satisfactory. It is probable that this movement has been favored by changes in standards of living and changes in home and living conditions, such as the tendency to hand-to-mouth buying by consumers, and the purchase of smaller and smaller quantities of daily necessities.

There have been numerous instances in which retailers offering only cash and carry retail service have tried to push beyond the limits of consumer demand and have found, to their loss, an unwillingness on the part of the public to respond by giving its trade. The movement of change from credit to cash is not rapid.

In the aggressive development of chain grocery stores, something of the same condition has become apparent. In order to expand their business, certain chains have had to depart from the cash and carry principle to the extent of offering limited charge accounts and delivery services. The public demand for delivery service is more strongly fixed than the demand for credit. There are, indeed, indications that the trend in reducing delivery service has reached its acme and that, for the present at least, delivery service is increasing.

There is nothing to indicate that the trends toward cash methods of doing business have as yet reached their climax. The movement is likely to continue to grow as long as the trend toward smaller homes and hand-to-mouth buying continues.

**Self-Service Stores.**—Self-service stores reduce labor requirements to a minimum by eliminating salespeople and all salesmanship, except in so far as selling may be effected by advertising and displays. Self-service has been highly successful in the moderate-priced restaurant business. These restaurants are known as cafeterias. Self-service has likewise been widely successful in the sale of groceries. Self-service in the grocery business has been applied by both chains and independent stores, but more widely by chain than by independents. Among the best-known self-service chain grocery store systems in the United States are the Piggly Wiggly system, the Clarence W. Saunders system, the Handy Andy stores, the Helpy Selfy stores, the Nifty Jiffy stores, the Mick-or-Mack stores, and the Jitney Jungles. All of these stores are operated under patented systems using special equipment, advertising ideas, and central buying services offered by the parent companies. The units using these systems may be either single stores independently owned, or chains. For these features the individual stores pay a royalty running from ¼% up to 1% of sales.



The Piggly Wiggly Company, the oldest of these systems, was originally established about 1916 by Clarence W. Saunders, in Memphis, Tennessee. By January 1, 1929, there were nearly 3,000 stores operated under Piggly Wiggly franchise. Mr. Saunders, the founder, separated from the Piggly Wiggly system some years ago and established a new organization on a similar principle known as the Clarence W. Saunders stores.

Self-service has also been utilized in a limited way in the sale of other types of commodities such as women's apparel, millinery, and even men's furnishings and clothing. One of the most remarkable merchandising successes in recent years is the rapid growth of Klein's, a self-service women's apparel retail store in New York City. Men's furnishings, it is reported, are successfully sold by the B. Y. C. store in Memphis, Texas. B. Y. C. means, "Be Your Own Clerk." Many efforts made to establish and conduct self-service stores have proved ineffectual excepting in the grocery and restaurant field. Self-service stores may still be said to be in the experimental stage.

Aside from the novelty, there may be considerable satisfaction to the customer in going about a retail store and helping

Figure 20. Interior of a Piggly Wiggly Store

Showing the convenient arrangement of merchandise for self-service. The Piggly Wiggly system including standard arrangement and fixtures is patented and stores using it do so under licences.

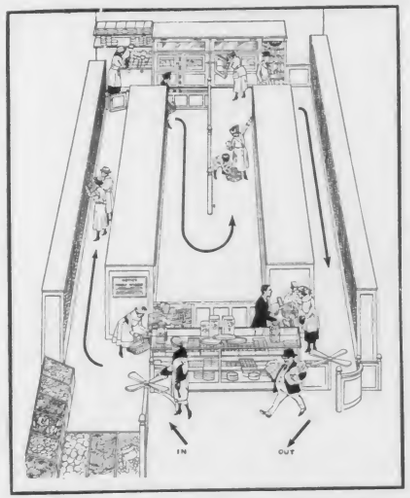


Figure 21. Bird's-Eye Perspective of a Piggly Wiggly Store

Every customer who enters must pass through all parts of the store and see all goods displayed.





oneself from the goods that are laid out or displayed. The system effects some savings, such as salaries for salespeople. It is, of course, not possible to eliminate all clerks unless automatic vending machines are adopted. There must be cashiers. and wrappers, stock clerks, and others to supervise the store and to prevent pilferage. In many instances, stores started on the self-service basis have gradually reverted to the regular type. Employees quite naturally begin to assist customers in making selections of suitable merchandise whenever called upon, and there is but a short step beyond to full sales service.

**Characteristics of Independent Stores.**—The first fact to be noted about independent retail stores is their wide variability in all respects. They vary in size, in kinds of goods handled, in qualities of goods offered, in services, and in profits made.

**Low Average Retail Sales.**—Independent retail stores vary in sales per year from next to nothing to millions of dollars. However, a large proportion of independent stores are relatively small in size and have but a small annual volume. Dr. Julius Klein of the U. S. Department of Commerce, in a radio talk, September 8, 1928, estimated that there might be as many as 750,000 retailers in the country with annual sales of less than $25,000. In the trial census of 11 cities taken in 1927, it was found that nearly 75% of all the retail stores in these 11 cities had sales of less than $25,000 per year. In fact, 28% of all the retail stores had sales of less than $5,000 per year. On the other hand, there were in these 11 cities not less than 40 stores, department stores, whose sales exceeded $5,000,000 a year. In the distribution of the total retail sales volume through independent stores it was found that the 75% of the total number that had sales of less than $25,000 a year had only 27% of the total retail business. While independent retail stores with a sales volume in excess of $1,000,000 a year

INTENTIONAL SECOND EXPOSURE

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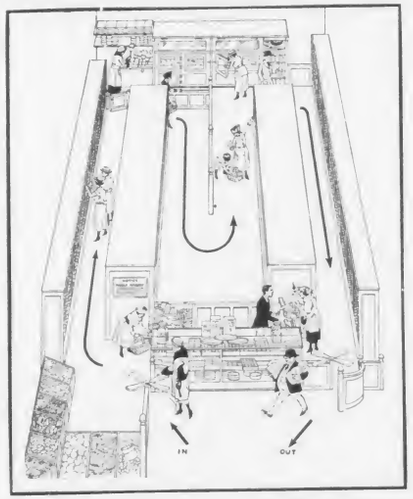


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had over 30% of the entire retail business. These facts are clearly presented in Table 2.

TABLE 2. DISTRIBUTION OF THE NUMBER OF INDEPENDENT STORES AND SALES IN 11 AMERICAN CITIES

(From Retail and Wholesale Trade of 11 Cities)

| Annual Sales | No. of Stores | % of Total | Sales | % of Total |
|---|---|---|---|---|
| Less than $5,000 | 22,388 | 28.06 | $ 50,611,500 | 1.68 |
| $ 5,000 to $ 9,999 | 14,747 | 18.50 | 107,322,100 | 3.56 |
| 10,000 to 24,999 | 22,409 | 28.09 | 349,759,800 | 11.62 |
| 25,000 to 49,999 | 11,174 | 14.01 | 379,757,100 | 12.61 |
| 50,000 to 99,999 | 5,184 | 6.50 | 352,392,900 | 11.70 |
| 100,000 to 249,999 | 2,452 | 3.07 | 372,614,600 | 12.37 |
| 250,000 to 499,999 | 839 | 1.05 | 292,500,800 | 9.71 |
| 500,000 to 999,999 | 322 | .40 | 217,943,300 | 7.24 |
| 1,000,000 to 4,999,999 | 213 | .27 | 393,865,400 | 13.08 |
| 5,000,000 and over | 40 | .05 | 494,322,800 | 16.43 |
| Total | 79,778 | 100.00 | $3,011,090,300 | 100.00 |

The difficulties of independent retailing may be inferred from the fact that in many lines, according to experts, it is impossible to conduct a successful business and pay all expenses, including living wages on sales volumes as low as those found in the majority of the retail stores listed in the table referred to above. It has been stated that it requires a sales volume of not less than $16,000 a year to run a meat market, $25,000 a year to carry on a successful grocery store, and a sales volume of not less than $50,000 a year to carry on a successful drug store. The majority of retail stores fall far below these figures.

**The Gradual Decline in Importance of Independent Retail Stores.**—Perhaps the most important change in recent business history is the gradual relative decline in importance of independent stores as distributors of consumer goods, and the meteoric rise of department stores, mail order houses, and chain store systems. In later chapters, descriptions of the



developments of these new forms of retailing will be outlined in detail. Due to the growth in population and rapid rise in incomes and standards of living, the total volume of retail trade has been rising rapidly for several years. To a large extent, the system of distribution through independent retail stores has not shared in this increase in trade. Most of it has found its way through the channels of the newer types of retail distribution. Indeed, there are indications that independent

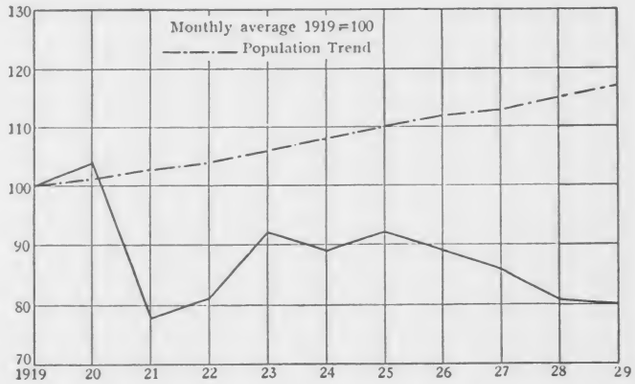


Figure 22. Wholesale Trade Index

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, March, 1930.) This index has not been available since 1929.

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The lack of accurate statistics on retail trade makes it difficult to determine precisely what has been going on, but there are certain indications which point to the conclusions as to the trends of trade in independent retail stores mentioned above. The statistical department of the Federal Reserve system has been gathering information on the trends of sales of various groups of distributing institutions since 1919. There

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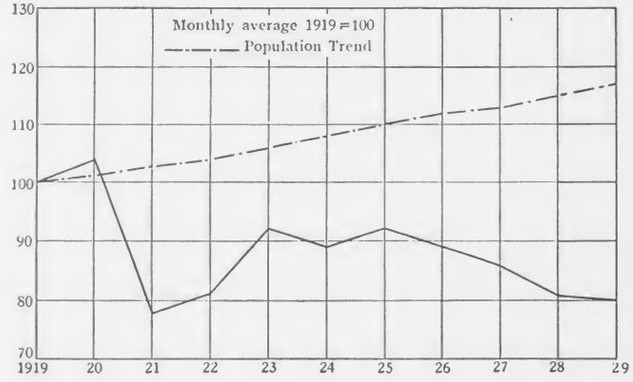


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are excellent series of such statistics for department stores, chain stores, and the larger mail order houses. It has not been found possible to obtain such statistics on the trends of sales in independent retail stores, but since such stores make a large part, if not most, of their purchases through wholesale houses, the Federal Reserve index of the sales trends in the wholesale field may be taken as a fair indication of the general trend in sales in independent retail stores as well. Figure 22, page 113, prepared from the Federal Reserve statistics on wholesale trade from 1919 down to the end of 1928, not only indicates that the wholesale trade has not held its own, but that independent retail stores, which constitute wholesalers' principal outlets, have probably likewise lost ground. On the other hand, there are large numbers of independent stores constantly coming into existence. Despite the rapid establishment of chain stores going on at the present time (1929), there are at least three or four times as many new independent stores started per month, as chain stores. The rate of discontinuance of independent stores as compared with chain stores is even higher. Independent stores come and go at a very much more rapid rate than chain stores, but their total number at any given time still remains very high.[1]

**Elements of Vitality in Independent Retail Stores.**—Much has been said about the possible elimination of independent retailers by other forms of retailing, particularly chain stores. A careful survey of retailing, the world over, indicates that the independent retail store has never, so far, been completely eliminated. This type of retailing is able to survive in some fashion under almost all conditions. The independent store is to be found in communities too small, too poor, or too

[1] Report of Commercial Service Co., New York and Chicago. "The greatest increases among independents were in the automobile accessory and oil filling station fields, followed by restaurants with women's furnishing and millinery lines coming next. . . ." In addition to rapid increases in the foregoing fields for chain stores also the latter showed increases in "department stores, general, variety and dry goods lines with grocery and meat lines coming next. . . . The greatest decreases among independents are in the field grouped as department, general, variety and dry goods merchants."



far out of the way to be of any interest or to offer any possible means of existence for any other type of retailing. The independent retail store has survived the severe competition of chains in communities in which chain stores have apparently almost reached the saturation point. They have lived through the very active competition of consumers' cooperatives in England. They have continued to exist in the face of governmental regulation and hostility in Soviet Russia. The influence of the independent retail distributor may be, and undoubtedly is, declining in America at the present time, but it seems utter nonsense to believe that the independent retailer may be completely driven out of existence.

There are qualities in independent retailing that fit it for survival under almost all conditions.

The personal and direct ownership of an independent retail business makes it possible to change its methods or policies whenever such changes may be needed to suit customers. Prompt decisions, respecting any or all matters, may be made in such establishments, whether it be to decide to join the local chamber of commerce, to participate in community movements, to employ some one who may be of help in developing the business, to contribute to charities, or to act on any other matters of store operation.

There is a personal incentive in the independently owned retail store that, for many people, serves as the greatest incentive to effort in the world. Many people would rather work for themselves, even in small shops, and devote their entire energies thereto, than to work for others at even higher incomes. Large organizations, through effective personnel methods, aim at the results achieved through personal ownership as an ideal. Under close supervision and effective drive, such results may be approximated but probably never equaled.

The close personal contact of the owner and the manager of an independent retail store with his public, is another factor of great importance in its continued success. Customers are

received as acquaintances and friends. Complaints may be instantly satisfied, lost sales retrieved, and accommodation arranged to suit the individual requirement. Through this close contact with his customers, the independent merchant may study their likes and dislikes, and in that way closely determine his stock requirements.

The close contact with the public and direct personal interest in selling, induce a supervision over employees which prevents the raw, crude incidents that happen daily to customers served by inefficient salespeople in department stores and chain stores. In small stores the number of customers is not at any time very great, so that there is a possibility not only for alert, aggressive selling but special, personal attention to every customer.

The small size of the average independent retail store has its disadvantages, but it likewise permits its owner and manager to have an intimate knowledge of his stock, such as can be secured only by the most carefully devised and expensive stock control system in larger institutions.

The independent ownership and management of a retail store permits a high degree of elasticity in its policies on when to open and to close shop. Small, independent stores are frequently kept open to serve customers during long evening hours and on Sundays and holidays. Such policies would be practically impossible in institutions operated by employees.

Small, independently operated retail stores may, and frequently do, carry merchandise such as chain stores and department stores have found unprofitable. Among such goods are the highly perishable, ready-cooked and ready-to-serve foods, slow turning goods, unusual qualities in merchandise appealing to local groups of customers, and so on.

In all theoretical discussions relative to operating expenses in retail stores, it is properly assumed that a certain volume of business is requisite to the successful operation of a unit and that sales below these minimum amounts must raise operating



expenses out of line with competition. Actually, in thousands of instances, it does not work out in this way. As a matter of fact, actual operating expenses in small, independent, retail stores are very low. There is no type of retailing institution in existence that can sell the quantities and qualities of goods distributed by such stores on the low expense found therein.

These exceptions to the theory of retail operating expenses are due to certain widespread artificial conditions. In multitudes of independent stores there are no hired employees. The owner may not even allow himself or herself a regular salary. During rush periods and other times when the head of the store must be absent, other members of the family assist in his duties, likewise without pay. Rent is cut to a minimum in a great many small stores by the use of an upper floor or part of the space occupied by the store itself as a residence. Items of expense, such as for supplies, electric light, heat, water, and so on, are most carefully controlled. The discounts from the regular retail prices obtained on goods consumed by the retailer and his family are an important part of his income. In many cases, the net revenue obtained from the store is supplemented by income or earnings from other sources.

To be sure, if all factors contributing to the operation of retail stores, such as just described, were to be placed on a business basis, and proper charges at market rates set up for each, then the operating expenses in stores with small sales would mount to impossible heights. As it is, the operations of these stores are conducted on such ordinary competitive gross margins as may be obtained on the sales. These small shops, of which there are multitudes, enjoy no market advantages when purchasing goods. Having no buying power, they get no quantity or other special discounts. Their gross profit margins average lower than for any other type of retailer. If conditions allowed them to purchase their goods at prices as low as those obtained in larger mercantile institutions, such

small shops operated on such narrow operating expenses would be exceedingly profitable, but, as their sales increase and as they become more successful, hired help replaces the unpaid services of members of the family, more space is required, and higher rentals expended, and so on through the list of operating expenses. In conclusion, although it may be definitely shown that a grocery store cannot be operated on a business basis on sales of less than $25,000 a year, it is not safe to assume that small shops with sales amounting to $10,000, $5,000 or even less per year are not successful in their operations. Nor is it safe to assume that the existence of such stores adds to the costs of distribution of goods. It is more than likely that the existence of great numbers of small shops, operated only partly on a strictly self-sustaining basis, results in a competition of services as well as prices from which the consuming public profits immeasurably.

In the foregoing paragraph, there were enumerated some of the factors pointing to the continued existence and even strength of distribution of goods through small, independent, retail stores. Where the independent retailer fully utilizes such opportunities as exist for him, he can scarcely be forced out of business, and there is even the promise of some degree of success for those who must effectively meet the difficult conditions of modern trade. One of the means by which the independent retailer has strengthened his position is by increased education in methods of merchandising, by meeting present-day requirements for attractive displays, cleanliness, good lighting, and modern equipment.

There is obviously great vitality in the system of distribution through independent retailers. The mortality rate among such retailers is high and has always been high. Whenever a retailer drops out there is almost always another to take his place to make another trial. Out of the many efforts, an occasional store makes a success, and out of the many efforts



lessons may be drawn which, when properly applied, may guide those who come after.

**Weaknesses of the Independent Retail Store.**—The most obvious weaknesses of the small independent retail store are its failures to use its own natural resources. Carelessness, ignorance, incompetence, and lack of energy and business ability are as fatal to success in the independent retail store business as in any other line. The ease with which entry may be made into the retail business throngs its channels with people who have no aptitude, no education, no experience, nor other necessary qualifications for this business. The wonder to many students of the retail business is that more do not fail. More specifically, perhaps the greatest difficulty encountered by the small independent is his low buying power, poor contact with wholesale and manufacturing markets, inadequate knowledge of what to buy and inability to keep his stock within limits necessary to secure an active turnover. The average independent retailer is decidedly handicapped by his lack of time and opportunity to visit sources of supply, and also by the amount of his time consumed by the hosts of wholesalers' and manufacturers' salesmen who call upon him, and through every device known to the art of salesmanship contrive to secure his attention, and take up some of his time that might be put to better use in keeping his store in order, preparing better displays, getting out from house to house among his customers, and so on.

The small quantity of each item purchased makes it necessary for the small independent retailer to pay the highest prices, while his competitors are enabled to own their merchandise at considerably lower costs.

The location occupied by the independent retailer is at once either his strength or his weakness. It is his strength if it happens to be a good location, it is a weakness if it happens to be a bad location. His future is largely tied up in his location. A chain store may occasionally make a mistake in choice of loca-

tion, and after discovering its mistake pull up out of it. It is difficult for an independent retailer to exercise such mobility. Usually, though not always, the independent retailer sinks or swims with the success of his location.

The lack of opportunity for specialization is a tremendous handicap to the independent retailer. In selling, many independent retailers find it impossible to use certain forms of advertising which are very effective for other types of stores. Independent retailers, as a rule, have no special knowledge of the intricacies of direct mail and handbill advertising, the only kinds that may be effectively used.

In accounting, most independent retailers are forced by a lack of time to adopt the simplest methods they can devise, and these usually fail to give the results that modern retailing requires. The credit system, commonly found among small retailers, is a means of holding customers to the store, but it likewise is the cause of failure of numberless independent retailers. Slackness in handling charge accounts is a certain method of being forced out of the business.

Control of stock without systematic methods, even under close supervision, has its difficulties. Actual examination of inventories of many independent retail stores has invariably shown a high percentage of old, out-of-date, depreciated goods on hand. Buying errors are frequent. Varieties and qualities are selected which are not wanted by customers. It is not uncommon to find that half of the stock carried has little or no sale.

Independent retailers are usually slow in sensing changes in consumer demand. They are prone to hope that such changes are but temporary and that the former demands will again assert themselves, a hope probably never actually realized.

The lack of specific knowledge of possible standards of performance among independent retailers leads to easy-going working methods. Salespeople who are inefficient are kept on their jobs much longer than they should be. Advertising is



repeated which, if properly tested, would be eliminated. The store is allowed to drift along on fair accomplishments when a closer analysis and a more effective administration might make it grow by leaps and bounds.

Independent retail stores vary in building and equipment as much as in any other respect. Some of the best located retail stores in existence are independently owned and managed. The majority of independent stores, unfortunately, are not like the best. Careless, slipshod thinking as regards the value of appearance is frequent. Fixtures are more often than not poor, dingy and inadequate. In no respect is the independent retail store more frequently found inadequate than in comparison with chain or department stores in its use of lighting, both in its windows and interior. These conditions, some of which may be remedied, are now recognized as a detriment to the independent retail store.

It is scarcely fair to characterize any large group of people in any specific, critical way. Independent retailers in their human qualities are undoubtedly very much like other human beings. They are probably neither better nor worse. It seems safe to say, however, that a great many independent retailers are characterized by a very high degree of individualism and, at the same time, of conservatism. They want to be left alone. They dislike change. They want to run their businesses in their own way. They are antagonized by suggestions. They do not easily learn from competition. They would rather conduct their businesses at a loss in their own way than to make money under direction.

The great majority of independent retailers apparently do not read. There are a number of trade papers in the retail field representing practically every type of retailing. Most of these trade papers have very small circulations, and the observation of countless unopened copies in literally hundreds of independent retailers' stores has led the writer to the conclusion

that, small as trade paper circulation is, its actual readers are still fewer.

When questioned as to the type of trade literature desired, independent retailers usually say they want "Brass tack stuff." By this expression they mean that they want articles that will tell them what to do, how to do the work of the retail store, how to meet competition. They apparently desire recipes giving specific directions indicating what shall be used, how it shall be used and what the net results will be. They are, by and large, not interested in retailing theory, and there is a general lack of faith in the possibility of learning anything from other lines. Rarely does the grocer think that he can gain any suggestion from a dry goods or department store, and a druggist will ridicule the possibility of learning anything from a milliner.

Independent retailers are, as a rule, not good cooperators. The masses of retailers do not even belong to their local or national trade associations. A few years ago, it was carefully estimated that not more than 4% of all the independent retailers in the country were members of associations. There has been considerable progress in this respect, but the number now in associations, whatever it may be, is pitifully small. Retailers' trade associations were formerly largely dominated by a few politically-minded members and largely supported and controlled by wholesalers and manufacturers.

When hit by some new form of competition, however, a great many retailers, instead of studying ways and means of meeting this competition, merely cry and wring their hands. From whatever the source that competition arises, whether department stores, mail order houses, house-to-house selling, or chain stores, the first thought seems to be to try to secure the help of legislation or of the courts to stop the competition. Probably every state legislature in the Union has been asked not only once but many times by retail dealers to curb their



competitors. Instead of revising their own methods within their own stores to meet the new conditions of competition, there is too frequently a tendency to appeal to the public for help on some ethical, patriotic, political, or even religious ground. The fact that these appeals rarely ever succeed apparently does not discourage new groups of retailers from using them, for their knowledge of the history of retailing, is, of course, very limited.

**Changes Going On in Independent Retailing.**—The criticisms of independent retailers presented in the foregoing paragraph are, of course, limited in their application. There are great numbers of independent retailers who are as intelligent, as progressive, as far-seeing, and as broadminded as any found in other businesses or professions. Leading retailers of almost every community have been in the forefront of all movements for social development and betterment. The contributions of retailers to their communities may always be favorably compared with those of any other group.

Independent retailing is also undergoing radical, widespread changes. The old unplanned, unorganized methods of doing business are slowly giving way on every hand. During the past twenty years, much progress has been made in the development of simple accounting among independent retail stores. Practically all progressive retailers, who, unfortunately, do not yet constitute a majority, know how to compute their store costs of doing business and how to prepare operating statements and balance sheets.

Independent retailers are much more wary than they formerly were of trends in consumer demand, and there has been a very rapid development of cooperation in various forms among all classes of independent stores. Through cooperative action, thousands of independent retailers are securing for themselves many advantages formerly enjoyed only by chains and other large retail concerns.

Finally, the most obvious indications of the rapid change going on in the field of independent retail stores are the remodeling of stores, the construction of new show windows by the thousands, the installation of new equipment and fixtures, and the growing efforts to secure effective displays of merchandise.

# CHAPTER VI

## THE DEPARTMENT STORE

**What a Department Store Is.**—The department store is a retailing institution that deals in many lines of goods, each line separated or "departmentized" from the rest, both in location within the building and in the concerns' systems of accounting and management. Each department is conducted practically as a store in itself. In large stores each department has its separate organization consisting of a buyer, or department manager, and salespeople, much the same as any independent store.

Technically, any retail store dealing in many lines, if departmentized, is a department store. Thus there may be and there are food department stores, drug department stores, clothing department stores, and so on. The trend in all retail stores is toward departmentization. In common practice, however, the term is applied only to stores in which dry goods, apparel, and home furnishings are handled. It is in this narrower sense that the term is used throughout this book.

The term "department store" has not always been received with favor by the managers of some of the largest and most representative institutions of this kind. "United stores," "consolidated stores," and other names have been suggested as more appropriate. Where this disfavor existed it was probably due to the fact that the term, "department store," was early claimed by many catch-penny concerns doing business on planes that tended to put all stores so called into disrepute. John Wanamaker, throughout his long business life, never favored the name, department store, as applied to his stores. This early feeling about the name has now largely passed away.

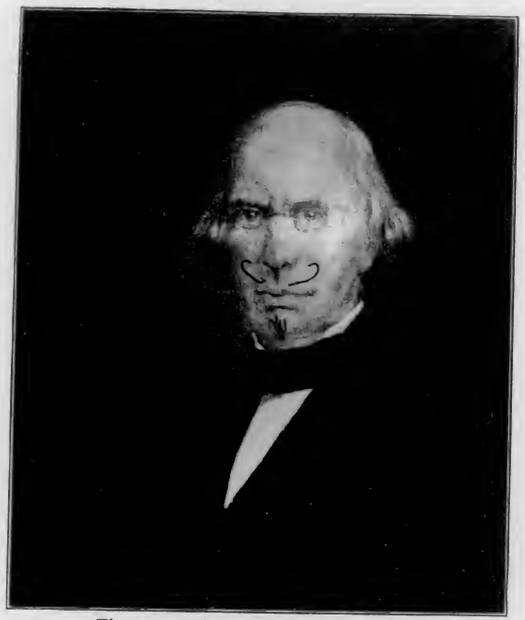

Figure 23. Aaron Arnold (1794-1876)

Founder of Arnold, Constable & Co., New York. First store was established on Front Street in 1827. In 1857 it was moved to Canal, Mercer and Howard Streets. In 1869 it was moved to Broadway and 19th Street, and to its present location on Fifth Avenue and 40th Street in 1915. This picture has been reproduced from an oil painting courteously loaned by Mr. Isaac Lieberman, President of Arnold, Constable & Co.





**Origins of the Department Store.**—Although department stores in this country did not come into existence before the latter half of the nineteenth century, their origins are hard to trace. It is fairly certain that department stores originated in Europe, probably in Paris, and antedated American department stores by several years. The Bon Marché of Paris has often been credited with being the first in the world.

Just when and where the first departmentized store in America came into existence has not yet been definitely determined. There have been several claimants. It may have had a beginning simultaneously in several places.

It is certain, however, that the idea of departmentization in retail store work became well established in at least a few stores during the 1860's; among them, Jordan Marsh & Company in Boston and A. T. Stewart in New York. A description of the A. T. Stewart New York store, written in 1870, shows that this store was clearly operated on a department basis at that date.

"The accounts of each department are kept separate and the sales of each for the day constitute a separate return. These sales will average something like the following figures:

| | | | |
|---|---|---|---|
| Silks | $15,000 | Gloves | $1,000 |
| Dress goods | 6,000 | Furs | 1,000 |
| Muslins | 3,000 | Hosiery | 600 |
| Laces | 2,000 | Boys' clothing | 700 |
| Shawls | 2,500 | Notions | 600 |
| Suits | 1,000 | Embroideries | 1,000 |
| Calicoes | 1,500 | Carpets | 5,500 |
| Velvets | 2,000 | | |

"The total daily receipts average $60,000 and have been known to amount to $87,000." [1]

A further quotation from this book describing the organization of A. T. Stewart's store supplements the evidence just presented that this store was then fully departmentized and,

[1] Jas. D. McCabe, Jr., Great Fortunes and How They Were Made, October 24, 1870.

Figure 24. Alexander Turney Stewart (1795-1876)
Probably the greatest retail merchant of the third quarter of the nineteenth century in America. Department store organization and operation were instituted by him in his New York retail store in the early 1860's.

Figure 25. A. T. Stewart and New York Wanamaker Store
The A. T. Stewart store in foreground was completed and first occupied early in 1863. It was then the largest and best equipped store in the country. The large building in the background, now the principal part of the store, is of recent construction. The buildings are connected by a bridge shown in the inset at the bottom of the page.

at the same time, presents an interesting description of early American department store organization.

"The service of this immense establishment is arranged as follows: There is one general superintendent, with nineteen assistants, each of whom is at the head of a department. Nine

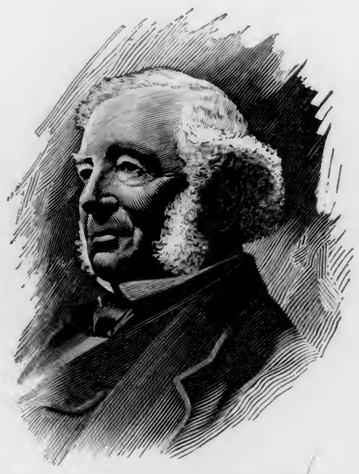

Figure 26. Samuel Lord (1801-1889)
Founder of the Lord & Taylor Store. Reproduced by the courtesy of Mr. Samuel Reyburn, President of Lord & Taylor, from "The History of Lord & Taylor," published in 1926.

cashiers receive and pay out money; twenty-five book-keepers keep the record of the day; thirty ushers direct purchasers to the department they seek; two hundred cash boys receive the money and bring back the change of purchasers; four hundred and seventy clerks, a few of whom are females, make the sales of the day; fifty porters do the heavy work, and nine hundred seamstresses are employed in the manufacturing department. Besides these, there are usually about five hundred other persons employed about the establishment in various capacities,



bringing the total strength of the personelle of the house to twenty-two hundred."

The A. T. Stewart store building was described as consisting of "five stories and an attic in height, and with two

Figure 27. Lord & Taylor's First Store, 1826, at 47 Catherine Street, New York

This illustration, together with Figures 25, 26, 27, and 28, are reproduced by courtesy of Mr. Samuel Reyburn, President of Lord & Taylor, from "The History of Lord & Taylor," published in celebration of the centennial anniversary of the concern in 1926. These views not only illustrate the development of a great American retail store but also the changes in types of retail store architecture. Each may be taken as representing the high level of architectural taste and efficiency of its time.

cellars underneath. It was warmed by steam and contained several steam engines for hoisting goods, running the machines employed in the manufacturing department and forcing water into the tank on the roof of the building. There were six ele-

Figure 28. Lord & Taylor's Second Store, 1853, at Grand and Chrystie Streets, New York. Note the rotunda and cathedral windows

Figure 29. Lord & Taylor's Third Store, 1860, at Grand Street and Broadway





vators, three of which were used by customers and the others for store service. The building was lighted by several thousand gas jets which were all set aflame simultaneously by electricity."

The A. T. Stewart building was completed and occupied in 1863. In view of the advanced development of the departmental idea that the quotations presented above show then existed, it is reasonable to assume that the processes of experimentation

Figure 30. Lord & Taylor's Fourth Store, 1872, at Twentieth Street and Broadway, the first iron frame store in New York City

and application of departmentizing must have been carried on for several years prior. It seems likely that A. T. Stewart may have had a departmentized plan of operation at least as early as the opening of the Ninth Street and Broadway store in 1862. It is also likely that other keen merchants of the same period were quietly modifying their organizations toward the department store idea. Departmentizing was an inevitable development of the growing size and volume of retail stores.

The leading American retailers in the 1850's and 1860's who regularly visited Paris and other European markets in quest of goods for their American customers, must have observed the methods of operation of the Bon Marché and other Paris department stores that came into existence and flourished

Figure 31. Lord & Taylor's Present Store, 1914, at Fifth Avenue and 38th Street

Architecture in Italian Renaissance style. Both externally and internally one of the most beautiful retail stores in the world.

during the period of the French Second Empire. It seems probable that the department store idea may have been given consideration by American retailers as early as the 1850's, or at least in the early 1860's.

Whatever its origins, the department store idea spread quickly throughout the 1870's in the United States. It is known

Figure 32. Adam Gimbel (1817-1897)

Founder of the house of Gimbel Bros., owners of a large department store chain. First store established Vincennes, Indiana, in 1842; Milwaukee store opened in 1886; Philadelphia store, 1894; New York store, 1910; Saks-Herald Square store acquired in 1923; Saks-Fifth Avenue store opened in 1923; Kaufmann & Baer Co., Pittsburgh, acquired in 1926; and Saks-Fifth Avenue shop in Chicago opened in 1928.

INTENTIONAL SECOND EXPOSURE



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Figure 33. Eben D. Jordan, Sr. (1822-1895)

Founder of Jordan Marsh Co., Boston, now a part of Hahn Department Stores, a chain of department stores. Eben D. Jordan, Sr., started his first business in Boston in 1841. A partnership was formed with Benjamin L. Marsh in the wholesale dry goods business in 1851. The concern re-entered the retail business in 1861.





that the A. T. Stewart store in New York attracted a great many out-of-town visitors during the 1860's. It may be safely assumed that any methods of retail store operation there used were observed, studied, and, if favorably considered, quickly adopted elsewhere. The departmentizing processes applied at the start were probably very crude, and the refinements that have helped to make the real modern department store, as we know it today, constituted a part of a gradual development in which many stores participated.

Department stores now in existence in America originated in several ways as follows:

1. The general merchandise store, once so common, and still found in large numbers of country towns, handling many classes of goods but not departmentized, is considered by some as the prototype of the modern department store. There is certainly a similarity in the functions performed by the two institutions, but their respective organizations are very different. There are a number of department stores now in existence that trace their origins back to general merchandise stores. In the evolution of retailing the general merchandise store often gave way to specialty or one-line stores, and the department store in some cases appeared only after the specialty and unit stores of the community had become well-established.

2. A large number of department stores trace their beginnings to dry goods stores. The rapid growth during the 1870's, 1880's, and 1890's in factory production of textiles and of goods formerly made in the homes, such as women's and children's ready-to-wear underwear, hosiery, millinery, laces, embroideries, and household goods of all kinds created a strong demand for outlets catering to women customers. Since the dry goods stores were first in the field as suppliers of women's needs, they very often and very naturally became the dealers in these new lines of goods. Systematic operating methods led to separate management in these lines and so dry goods stores expanded into department stores. The competition among dry

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Figure 34. Benjamin Altman (1840-1913)

Founder of B. Altman & Co., New York. From the humblest of beginnings he developed a retail business, famous not only for its size but also for the quality and artistic merit of merchandise carried. His first store was established in 1865 at Third ave. and 10th street. In 1876 he located at Sixth ave. and 19th street. The present Altman Store at Fifth ave. and 34th street was first occupied in 1906.





goods merchants, and the narrowing profit margins on the older lines of goods, such as the textile staples, helped to make the dry goods merchants more ready to take on the new lines and to expand their stores by adding new departments.

3. Other department stores, such as Frederick & Nelson's in Seattle, started as furniture and home furnishings stores. Still others such as F. & R. Lazarus & Sons of Columbus and, indeed, John Wanamaker's of Philadelphia, started as men's clothing and furnishing stores. The Fair in Chicago, established in 1875, first dealt in jewelry, notions, hardware, kitchen utensils, and crockery. It became a department store by buying out several nearby stores and combining them under one management and later under one roof. A number of department stores established within the last thirty years started as specialty shops handling women's and children's apparel. Many retail department stores were connected with or established as outlets for wholesale dry goods stores. Some of these were mentioned in Chapter IV.

4. In some cases, the department store had its origin in consolidations of several retail stores conducted by as many individuals under one roof. It has long been customary for the owner of a retail store building, or the lessee of the portion suited for store purposes, to sublease different parts of the space to different persons, with the understanding that each should conduct a retail business thereon in specified lines of goods, usually not competing with other lines of goods offered in each other's departments. There are a few stores which are still such agglomerations of separately owned and managed departments. One of the best instances of this type of institution is the Leiter Stores of Chicago, composed entirely of leased shops. Leased departments are exceedingly common in department stores even today. Whenever the ownership of several stores conducted under one roof passed to one individual, a department store came into existence.

INTENTIONAL SECOND EXPOSURE

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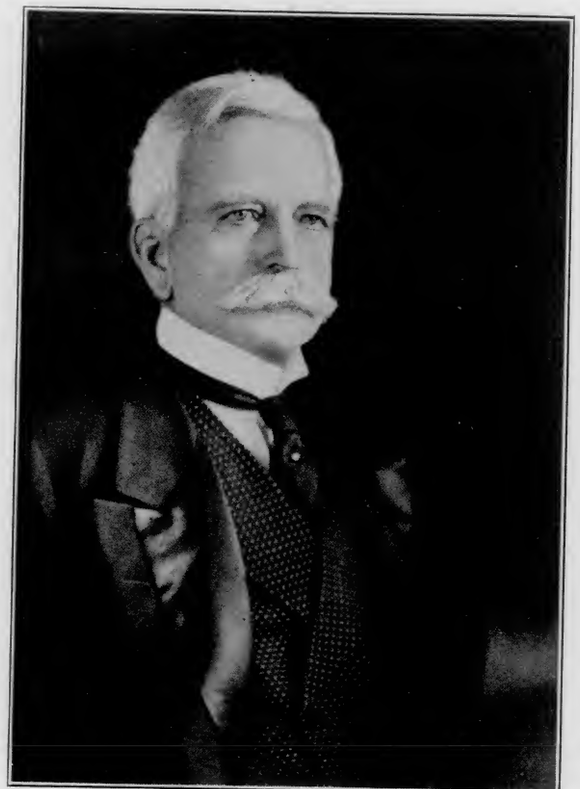


Figure 35. Marshall Field (1835-1906)

Founder of the great Chicago retail and wholesale concerns of Marshall Field & Co. The retail store is understood to have a larger retail sales volume than any other single retail unit in the world. Marshall Field possessed to a high degree a keen insight and accurate knowledge of consumer demand and trends and a genius for business organization.

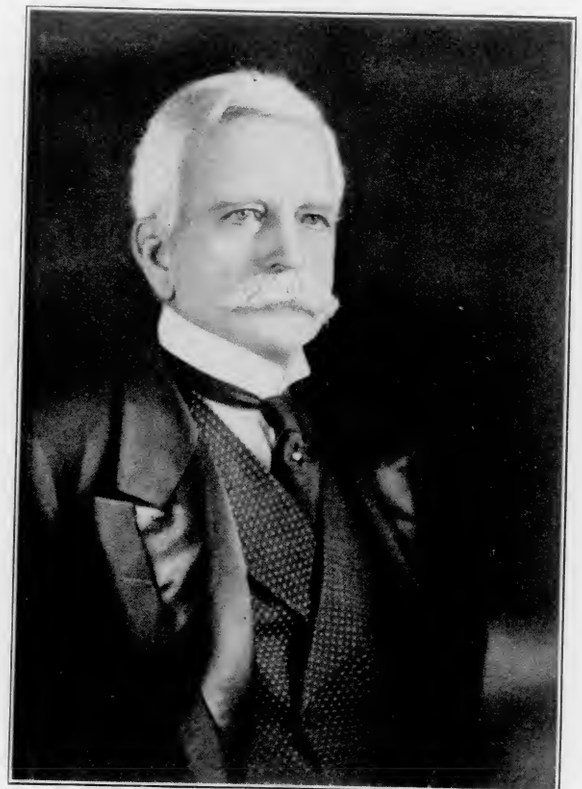




**Period of Rapid Development.**—During the period following the business depression of 1873-1874, this country saw a rapid development of department stores. For many years following the close of the Civil War, prices of all commodities handled in retail stores fell, competition stiffened, new methods of merchandising came into use. To use a stock exchange term, the "bears" ruled the retail markets. The conditions in 1873 must have been somewhat the same as during the business depression of 1920-1921. Retailers, as well as wholesalers and manufacturers, with their shelves loaded with stocks bought at high prices, suffered frightful losses. Many of the old storekeepers were unable to adapt their businesses so as to buy and sell profitably under these new conditions. Out of these circumstances grew the tendency among large retailers to seek out bargains directly from manufacturers, to buy for cash, and to sell quickly by offering the merchandise at prices much lower than usual. Profits per sale declined, but stocks turned oftener. Special sales were featured. Advertising was applied to help sell the goods. In the meantime the demand of the public for goods increased both in variety and amount. Under these conditions the department stores grew rapidly.

**Present Development of Department Stores.**—Differences of opinion as to what constitutes a department store make estimates of the total number of department stores in the country of little worth, and comparisons of one estimate with another valueless. Current estimates of the number of department stores in existence range from 200 up to 12,000 or 15,000. These wide differences are due mainly to differences in definition. The U. S. Census of Occupations for 1920 enumerated nearly 12,000 persons who stated that their occupations were department store dealers. Using the term department store in its more limited sense, described at the opening of this chapter, there are, of course, not nearly so many department stores as

INTENTIONAL SECOND EXPOSURE



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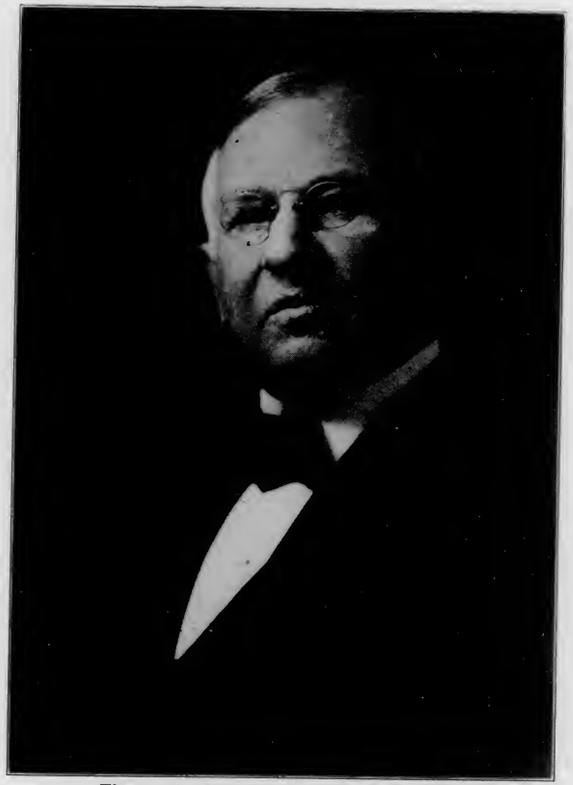

Figure 36. John Wanamaker (1837-1922)

Founder of the Wanamaker Stores, New York and Philadelphia. One of America's greatest merchants. John Wanamaker possessed a special genius for the organization and execution of successful retail publicity. The Wanamaker stores probably have a longer list of advertising successes to their credit than any other retail institution.





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Mailing list concerns offer classified lists, said to include only authentic department stores, ranging from 5,000 to 6,000 addresses. Perhaps the best detailed estimate of the number and distribution of department stores so far prepared has come from the Market Research Department of the Fairchild Publications. In a survey completed in 1925, summarized in Tables 3 and 4, there were enumerated altogether 4,015 stores of all sizes ranging from ratings as low as $5,000 up to more than $1,000,000 and distributed in communities of 10,000 population and up. The sales for this group for the year 1924 were estimated at slightly less than $4,000,000,000.

In arriving at this estimate, the Market Research Department of the Fairchild Publications included only such retail stores as handled both ready-to-wear apparel and yard goods. This definition eliminates a great many large departmentized retail stores, such as William Filene's Sons Co. in Boston;

TABLE 3. ESTIMATES OF NUMBER OF DEPARTMENT STORES AND OF SALES FOR 1924

(Compiled by the Marketing Research Department of Fairchild Publications. From *Women's Wear*, September 5, 1925.)

| Groups of Department Stores Arranged According to the Size of Their Operating Capital | Total of Operating Capital | Total of Yearly Net Sales |
|---|---|---|
| (1) 831 stores $ 5,000 to $ 10,000 | $ 6,232,000 | $ 31,970,000 |
| (2) 693 stores 10,000 to 20,000 | 10,395,000 | 53,326,000 |
| (3) 448 stores 20,000 to 35,000 | 12,320,000 | 63,202,000 |
| (4) 413 stores 35,000 to 50,000 | 17,552,000 | 90,042,000 |
| (5) 249 stores 50,000 to 75,000 | 15,562,000 | 79,833,000 |
| (6) 351 stores 75,000 to 125,000 | 35,100,000 | 180,063,000 |
| (7) 294 stores 125,000 to 200,000 | 47,775,000 | 245,086,000 |
| (8) 255 stores 200,000 to 300,000 | 83,750,000 | 429,637,000 |
| (9) 130 stores 300,000 to 500,000 | 52,000,000 | 266,760,000 |
| (10) 80 stores 500,000 to 750,000 | 50,000,000 | 256,500,000 |
| (11) 92 stores 750,000 to 1,000,000 | 80,500,000 | 412,965,000 |
| (12) 179 stores over $1,000,000 | 350,000,000 | 1,795,500,000 |
| 4,015 stores of all sizes with total | $761,186,000 | $3,904,884,000 |

INTENTIONAL SECOND EXPOSURE

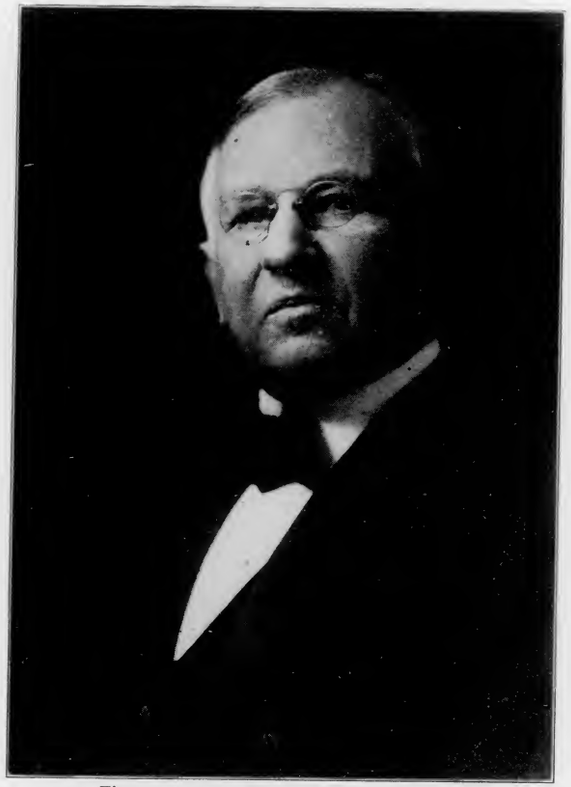

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TABLE 4. GEOGRAPHICAL DISTRIBUTION OF DEPARTMENT STORES BY SECTIONS AND BY SIZE OF CITIES

(Compiled by the Marketing Research Department of Fairchild Publications. From *Women's Wear*, September 5, 1925.)

| State Groups | Cities with Population of | | | |
|---|---|---|---|---|
| | 10,000–25,000 | 25,000–50,000 | 50,000–100,000 | Over 100,000 |
| NEW ENGLAND STATES: (Me., N. H., Vt., Mass., R. I., Conn.) | | | | |
| Population | 1,089,660 | 1,046,400 | 797,400 | 2,470,100 |
| No. of department stores | 115 | 81 | 35 | 101 |
| Population per store | 9,474 | 12,918 | 22,782 | 24,455 |
| MIDDLE ATLANTIC STATES: (N. Y., N. J., Pa.) | | | | |
| Population | 1,744,500 | 1,145,500 | 1,493,000 | 11,775,000 |
| No. of department stores | 420 | 159 | 151 | 218 |
| Population per store | 4,153 | 7,204 | 9,887 | 54,013 |
| E. NORTH CENTRAL STATES: (O., Ill., Ind., Mich., Wis.) | | | | |
| Population | 1,668,700 | 1,627,300 | 1,074,400 | 7,888,300 |
| No. of department stores | 319 | 228 | 112 | 226 |
| Population per store | 5,231 | 7,137 | 9,593 | 34,904 |
| W. NORTH CENTRAL STATES: (Minn., Ia., Mo., N. D., S. D., Neb., Kan.) | | | | |
| Population | 701,700 | 310,200 | 320,300 | 2,888,300 |
| No. of department stores | 169 | 38 | 32 | 92 |
| Population per store | 4,092 | 8,163 | 10,009 | 31,394 |
| So. ATLANTIC STATES: (Del., Md., D. C., Va., W. Va., N. C., S. C., Ga., Fla.) | | | | |
| Population | 537,100 | 628,200 | 754,300 | 1,822,200 |
| No. of department stores | 128 | 169 | 95 | 104 |
| Population per store | 4,196 | 3,717 | 7,940 | 17,521 |
| E. SOUTH CENTRAL STATES: (Ky., Tenn., Ala., Miss.) | | | | |
| Population | 356,500 | 230,000 | 210,000 | 883,900 |
| No. of department stores | 156 | 32 | 14 | 32 |
| Population per store | 2,285 | 7,187 | 15,000 | 28,246 |
| W. SOUTH CENTRAL STATES: (Ark., La., Okla., Tex.) | | | | |
| Population | 648,200 | 341,900 | 322,200 | 1,235,000 |
| No. department stores | 213 | 49 | 24 | 44 |
| Population per store | 3,043 | 6,977 | 13,425 | 28,068 |
| MOUNTAIN STATES: (Mont., Ida., Wyo., Colo., Ariz., Utah, Nev., N. M.) | | | | |
| Population | 307,500 | 210,300 | 52,000 | 381,500 |
| No. of department stores | 86 | 19 | 3 | 12 |
| Population per store | 3,575 | 11,068 | 17,333 | 31,790 |
| PACIFIC STATES: (Wash., Ore., Cal.) | | | | |
| Population | 431,000 | 372,200 | 260,900 | 2,950,100 |
| No. department stores | 137 | 44 | 23 | 135 |
| Population per store | 3,146 | 8,457 | 11,343 | 21,852 |
| ENTIRE COUNTRY: Population | 7,484,800 | 5,912,000 | 5,284,500 | 32,294,400 |
| No. of department stores | 1,743 | 819 | 489 | 964 |
| Population per store | 4,294 | 7,218 | 10,803 | 33,500 |



Franklin Simon, Bonwit Teller & Co., and Best & Co. in New York; Chas. A. Stevens & Co. in Chicago; and many other large stores throughout the country that have many departments and use regular department store methods but do not happen to carry yard goods. The inclusion of a yard goods department as a necessary part of a department store, it is felt, results in a classification that is too narrow. If the trend of decreasing sales in yard goods that has been noted for several years should continue, the time is not far distant when, according to this definition, there will be very few department stores left. It is believed that a broader definition of department stores will prove more helpful.

While the Fairchild study for convenience's sake decided to consider only such department stores as were to be found in cities with populations above 10,000, there are, undoubtedly, a great many small department stores in cities under 10,000 population, and in the aggregate they must enjoy a fairly large volume of business. It is in cities of 10,000 and under where one may find the best developments of general merchandise stores that have been turned into department stores.

Including many stores not counted in the Fairchild survey in an independent estimate, the writer of this book places the figure at about 8,000 department stores with a total sales volume of $6,500,000,000 for the year 1928. This estimate roughly includes all stores of the type defined in this chapter.

Though one may differ as to the totals of the estimates presented in the Fairchild analysis, there is still much of interest and value in these figures for the student of retailing. It will be noted that there are less than 200 stores rated at over $1,000,000. Out of the total of more than 4,000 stores tabulated, the 179 stores rated at over $1,000,000 are estimated to have nearly one-half of the total sales of all department stores in the country. From the figures presented in the table, it may be estimated that there are not more than 500 stores in the entire country, with annual sales volumes of more

than $1,000,000 per year. Allowing for the limitations of the Fairchild definition, it is possible that there may be as many as 750 single retail stores of all kinds that enjoy million-dollar sales.

Of the total volume of sales it is interesting to note, in Table 5, that the sales of women's outer apparel amounts to over $564,000,000, while the sale of silks, velvets, and dress goods amounts to slightly more than $400,000,000. These figures, while interesting, may not be taken as representative of the proportions of sales of ready-to-wear and of yard goods, for it must be recalled that, in making the analysis, the Fairchild survey included only such stores as handle both apparel and yard goods and omitted all retail stores handling ready-to-wear but no yard goods. However, the figures do indicate the strength of consumer demand for yard goods in the face of growing demands for ready-made apparel even as late as 1924.

Special note may also be taken that, according to Table 4, the population per department store varied with the sizes of the cities, namely: from 2,285 population per store in cities of from 10,000 to 25,000 population up to 54,013 per store in cities over 100,000 population. The tendency toward concentration in larger and larger stores in the larger cities is clearly evident in this tabulation.

**Sales Volumes of Individual Department Stores.**—Individual sales figures are not available for many of the largest department stores throughout the country. It is currently believed, however, that Marshall Field & Co. in Chicago, which is probably the largest department store in the world, has retail sales approximating $100,000,000 a year. R. H. Macy & Co., whose sales figures are published, had a volume in 1928, in its New York store, of over $90,000,000. This places R. H. Macy & Co. second in point of sales volume. The R. H. Macy record is, however, very remarkable because of the fact that

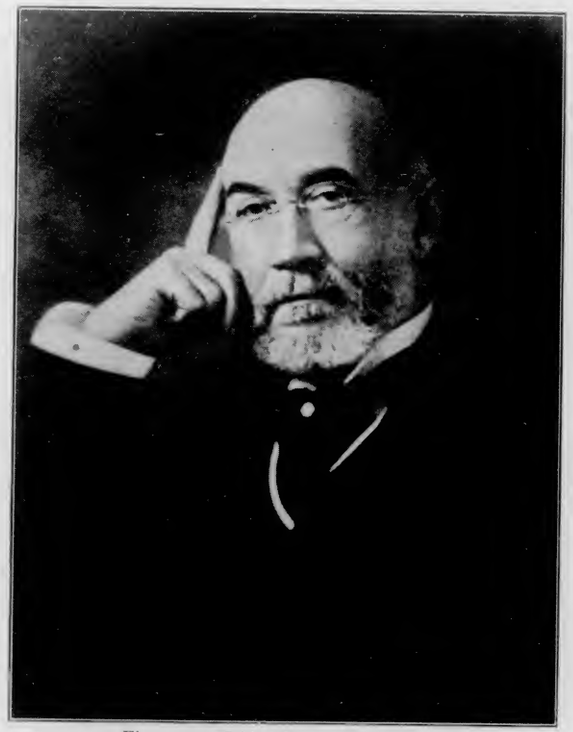

Figure 37. Isidor Straus (1845-1912)

The directing head, with the cooperation of his brother, Nathan Straus, during the critical and formative years of the great retail store, R. H. Macy & Co., New York, from 1888 to 1912. Since his untimely death in the sinking of the S. S. Titanic, R. H. Macy & Co. has forged ahead under the direction of his three sons, Jesse, Percy and Herbert Straus, now the principal owners and managers of the business. This concern was originally established in New York at 204 Sixth Avenue by R. H. Macy in 1858. In 1888 the ownership passed into the hands of Isidor and Nathan Straus who had conducted the china and glass departments under leases since 1874. The store was moved to 34th Street and Broadway, its present location, in the fall of 1902.

INTENTIONAL SECOND EXPOSURE



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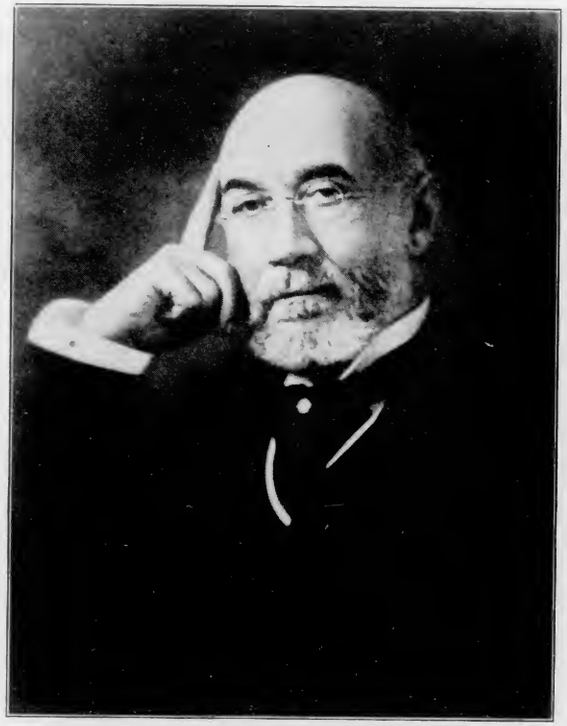

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TABLE 5. DISTRIBUTION OF DEPARTMENT STORE SALES BY LINES

(Compiled by the Marketing Research Department of Fairchild Publications. From *Women's Wear*, September 5, 1925.)

| | |
|---|---|
| *Women's coats, suits, skirts, dresses, and misses' ready-to-wear | $564,255,000 |
| Silks and velvets | 263,570,000 |
| †Men's furnishings, clothing, hats, and caps | 254,598,000 |
| Shoes—women's, children's, men's, and boys' | 194,072,000 |
| Rugs, carpets, linoleums, mattings | 167,519,000 |
| Draperies—lamps | 162,052,000 |
| Dress goods (woolens, worsteds) | 146,042,000 |
| Hosiery—women's & misses' | 142,918,000 |
| Millinery | 136,280,000 |
| Linens (yard goods, towels, sets) | 129,642,000 |
| Toilet articles—drugs | 116,756,000 |
| Domestics (cottons) | 107,774,000 |
| House furnishings | 107,774,000 |
| Muslin underwear | 98,793,000 |
| Corsets and brassieres | 76,926,000 |
| Art needlework—art goods | 70,287,000 |
| Waists and blouses | 70,287,000 |
| Infants' wear | 70,287,000 |
| Laces—trimming—embroideries | 66,383,000 |
| Notions | 65,992,000 |
| Petticoats, negligees, aprons, house dresses | 65,211,000 |
| Silverware—jewelry | 64,821,000 |
| Boys' wear | 64,430,000 |
| Knit underwear (women's, misses') | 58,963,000 |
| Furs | 56,620,000 |
| Gloves | 50,373,000 |
| Toys, sporting goods, luggage | 48,811,000 |
| Juniors' and girls' ready-to-wear | 44,515,000 |
| Sweaters | 41,782,000 |
| Leather goods | 41,391,000 |
| Neckwear—veilings | 41,391,000 |
| Ribbons | 37,096,000 |
| Handkerchiefs | 21,867,000 |
| Umbrellas—parasols—canes | 12,886,000 |
| | $3,662,390,000 |

| | |
|---|---|
| * Women's dresses | $220,059,737 |
| Women's coats | 141,063,934 |
| Misses' ready-to-wear | 95,923,475 |
| Women's suits | 67,710,688 |
| Women's skirts | 39,497,901 |
| | $564,255,735 |
| † Men's clothing | $122,207,240 |
| Men's furnishings | 119,661,265 |
| Men's hats and caps | 12,720,921 |
| | $254,598,435 |



its sales are made on a strictly cash basis. The J. L. Hudson Co. of Detroit, one of the younger giants in the department store field, is believed to come third in point of sales volume with sales of more than $60,000,000 a year. Department stores with sales volumes estimated to range from $30,000,000 to $50,000,000 a year include:

Carson, Pirie, Scott & Co., Chicago
The John Wanamaker stores, in both Philadelphia and New York
B. Altman & Co.
The Gimbel stores, in both Philadelphia and New York
Jordan Marsh & Co., Boston, a unit of the chain, Hahn Department Stores
William Filene's Sons Co., Boston
L. Bamberger & Co., Newark, New Jersey, a unit owned by R. H. Macy & Co.
Lit Bros., Philadelphia, a unit owned by City Stores, Inc.
The May Co. stores, in both Cleveland and St. Louis
Mandel Bros., Chicago
Snellenburg & Co., Philadelphia

Department stores with sales volumes published or reported to range from $20,000,000 to $30,000,000 per year include:

Lord & Taylor, New York
Franklin Simon & Co., New York
Stern Bros., New York
Bloomingdale Bros., New York
Abraham & Straus, Brooklyn
Frederick Loeser & Co., Brooklyn
The Fair and the Boston store, Chicago
The Kaufman Department Stores, Pittsburgh
Meier & Frank, Portland, Oregon
Stix, Baer & Fuller, St. Louis
Crowley Milner & Co., Detroit
Strawbridge & Clothier, Philadelphia
Joseph Horne Co., Pittsburgh
Bullocks, Los Angeles

A much larger number of very efficiently operated department stores are to be found throughout the larger cities of the

country with annual sales below $20,000,000. Tables 6 and 7 present the trends in sales and net incomes of those department stores whose figures are publicly reported.

**Department Store Sales Trends.**—The Federal Reserve statistical department's index of department store sales is based on figures gathered monthly from a large and representative

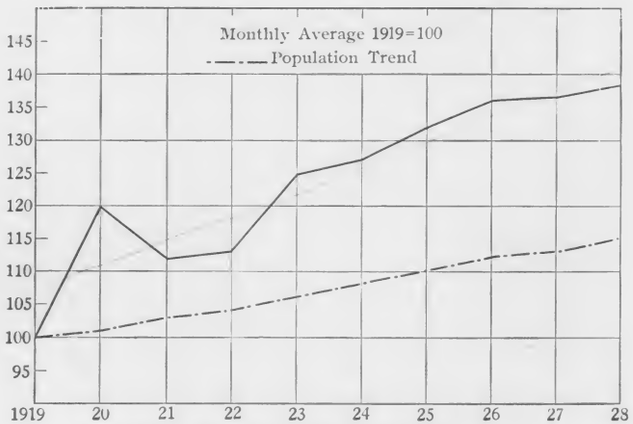


Figure 38. Department Store Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

group of department stores scattered all over the country. These figures, as in the case of other statistics of distribution, go back to the beginning of 1919. Figure 38, above, shows the trend from 1919 to the end of 1928.

The department stores of the country are known to have enjoyed a continuously increasing volume during the years preceding 1914. Their sales volume increased very rapidly from 1914 to 1918, owing in part to the changes in money values but also because of increased volumes of merchandise sold. With the exception of the period of business depression

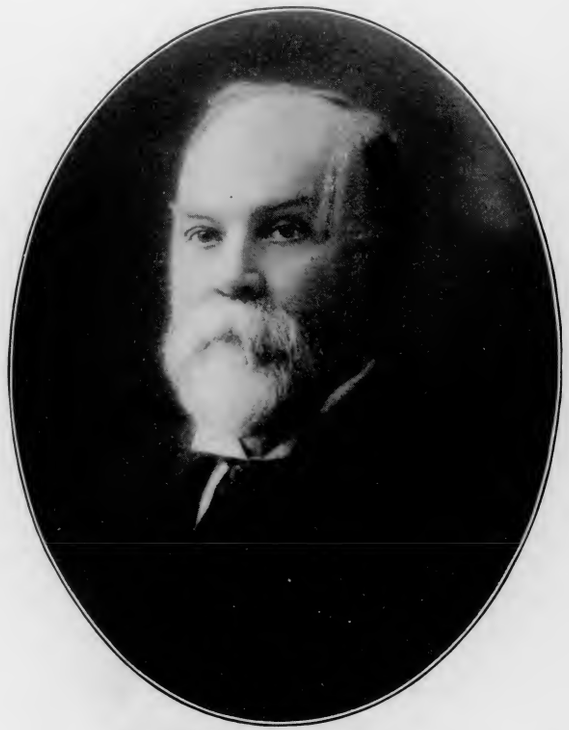

Figure 30. Timothy Eaton (1835-1907)

Founder of the T. Eaton Co. of Toronto, Canada, this organization now includes a number of department stores, a large chain of small stores and a remarkably successful mail order business throughout the Dominion of Canada. Now one of the largest retail mercantile institutions in existence.

INTENTIONAL SECOND EXPOSURE



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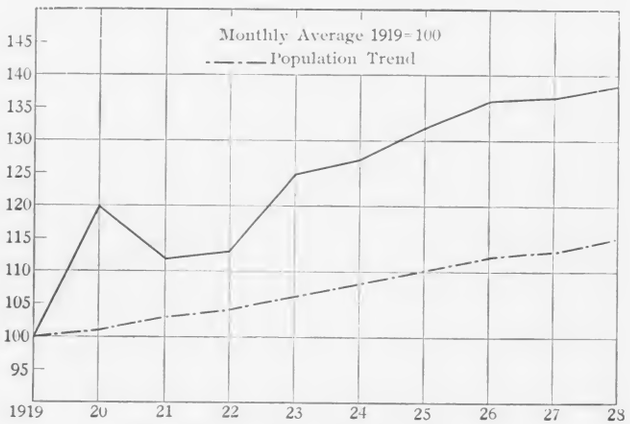


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Figure 40. A. L. Filene

Vice President and General Manager of Wm. Filene's Sons Company, Boston, also President since its organization in 1916 of the Retail Research Association, a group of closely cooperating independent department stores scattered over the country.





in 1921 and 1922, the upward trend continued to 1923. Since then, according to the Federal Reserve index, department store sales have continued to grow, but not at the same annual rates as in preceding years. Thus, while department store volume as of 1928 had increased by 38% over the sales of 1919, the rate of increase since 1923 has averaged only about 1.5% per year, which happened to be the estimated rate of growth of population in the United States for the same period.

Many individual department stores, of course, made a much better showing than this. Others, however, have barely held their own or have even lost ground. It looks very much as if the department store sales curve had nearly reached its peak or acme and that further increases might, if continued, be more nearly proportionate to population changes in the communities in which department stores are located, rather than to gains secured by competition with other types of stores. It seems possible to say that department stores, as a type of retail institution, have apparently reached a stage of maturity. Their place in the chain system of distribution has been defined. Relatively few new department stores are now being established and such as are coming into existence are largely in new towns or in suburban communities. It may be presumed that changes, already described, of independent general merchandise and other types of stores to department stores are still continuing.

**Department Stores Abroad.**—The department store development has progressed almost as extensively in other countries as in the United States. There are very few large cities in any part of the world not equipped with efficiently conducted, modern department stores.

The department store came into existence as a response to powerful economic needs. It has grown to a very important place in the distribution of goods. It is as much a part of modern civilization as the use of electricity, rapid transit, general

INTENTIONAL SECOND EXPOSURE

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TABLE 6. NET SALES OF DEPARTMENT STORES WHOSE SALES ARE PUBLICLY REPORTED

| | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|
| Abraham & Straus | $ 21,880,464 | $ 24,103,970 | $ 25,000,000 | $ 26,000,000 | $ 25,571,149 | $ 25,421,916 |
| Arnold Constable Corporation | 4,487,124 | 4,810,258 | 8,376,371 | 11,520,012 | 13,520,639 | 13,232,211 |
| L. Bamberger & Company | 26,163,937 | 28,003,302 | 29,952,279 | 32,508,089 | 33,595,334 | 35,001,214 |
| Best & Co. | 9,487,843 | 9,828,415 | 10,675,598 | 11,582,892 | 12,519,017 | 13,345,643 |
| Bloomingdale Bros. | 18,326,458 | 19,405,073 | 21,545,304 | 24,315,457 | 23,907,554 | 23,886,965 |
| Crowley Milner & Co. | 23,000,000 | 25,000,000 | 27,000,000 | 28,000,000 | 28,233,571 | 32,072,541 |
| Emporium Capwell Corp. (3 Stores in 1928) | 17,067,392 | 16,843,979 | 17,533,373 | 20,117,842 | 24,146,093 | 27,653,712 |
| The Fair | 25,766,718 | 24,406,664 | 26,957,739 | 27,443,024 | 26,760,029 | 28,013,875 |
| Gilchrist Company | 11,056,087 | 11,566,456 | 12,016,237 | 12,315,697 | 11,611,915 | 10,450,700 |
| Gimbel Bros., Inc. (7 Stores in 1928) | 101,544,467 | 102,110,802 | 109,101,565 | 122,679,523 | 123,595,549 | 121,109,363 |
| Hale Bros. Stores (6 Stores in 1928) | 15,023,457 | 15,735,076 | 17,214,125 | 19,613,572 | 19,870,528 | 19,416,208 |
| Kaufman's | 27,000,000* | 27,400,477 | 28,251,505 | 28,992,323 | 29,001,335 | 27,066,237 |
| R. H. Macy Co., Inc. | 51,232,360 | 56,362,765 | 66,505,459 | 75,470,315 | 82,214,640 | 90,251,396 |
| Mandel Brothers, Inc. | 29,505,625 | 29,114,469 | 28,040,932 | 28,087,114 | 27,000,000* | 25,456,141 |
| May Department Stores (7 Stores in 1928) | 90,997,655 | 89,932,915 | 97,117,891 | 100,522,928 | 102,756,197 | 106,671,527 |
| Namm's | 17,210,484 | 17,466,255 | 17,477,309 | 17,000,000 | 16,698,414 | 17,000,000* |
| National Dept. Stores, Inc. (14 Stores in 1928) | 72,331,455 | 74,368,555 | 79,455,118 | 82,062,059 | 74,959,296 | 71,404,075 |
| The Outlet Company | 10,366,204 | 10,194,836 | 10,336,990 | 10,474,921 | 10,598,614 | 11,264,276 |
| Total | $572,447,730 | $586,744,267 | $632,557,795 | $677,352,940 | $684,391,119 | $698,718,000 |

* Estimated



TABLE 7. NET INCOME OF DEPARTMENT STORES

| | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|
| Abraham & Straus | $ 959,748 | $ 1,130,522 | $ 1,238,303 | $ 1,446,332 | $ 1,530,969 | $ 1,557,424 |
| Arnold Constable Corporation | D592,696 | D278,747 | D140,372 | 356,408 | 708,862 | 650,013 |
| L. Bamberger & Company | 2,079,100 | 2,287,259 | 2,394,457 | 2,784,837 | 2,674,929 | 2,234,691 |
| Best & Co. | 789,850 | 805,047 | 983,537 | 1,091,707 | 978,818 | 1,003,924 |
| Bloomingdale Bros. | 1,252,642 | 1,129,071 | 1,409,244 | 1,255,227 | 793,650 | 1,384,986 |
| Crowley Milner & Co. | 1,690,000 | 1,900,000 | 1,400,000 | 1,400,000 | 1,561,735 | 1,738,834 |
| Emporium Capwell Corp. (3 Stores in 1928) | 1,011,362 | 1,131,879 | 1,024,384 | 1,324,508 | 1,026,619 | 1,078,524 |
| The Fair | 1,320,331 | 1,111,602 | 1,403,540 | 1,699,009 | 1,517,344 | 1,669,224 |
| Gilchrist Company | 568,927 | 499,996 | 542,109 | 635,653 | 501,585 | 151,363 |
| Gimbel Brothers, Inc. (7 Stores in 1928) | 7,378,616 | 5,482,363 | 4,155,950 | 3,357,570 | 1,498,535 | —909,795 |
| Hale Bros. Stores (6 Stores in 1928) | 625,129 | 517,426 | 715,250 | 756,959 | 489,494 | 496,382 |
| Kaufman's | 2,255,235 | 1,609,511 | 1,583,208 | 1,695,688 | 1,618,081 | 1,912,909 |
| R. H. Macy & Company | 3,337,887 | 3,005,698 | 4,163,315 | 5,143,937 | 5,831,917 | 7,566,194 |
| Mandel Brothers, Inc. | 2,006,524 | 1,986,928 | 2,002,776 | 1,587,846 | 825,878 | 663,313 |
| May Department Stores (7 Stores in 1928) | 6,680,543 | 5,909,608 | 6,800,312 | 6,952,101 | 6,498,927 | 5,758,062 |
| Namm's | 812,441 | 1,234,210 | 524,367 | 569,703 | 233,772 | 691,432 |
| National Dept. Stores, Inc. (14 Stores in 1928) | 4,309,780 | 3,032,317 | 2,317,552 | 1,950,672 | 1,578,581 | 2,180,028 |
| The Outlet Company | 1,046,916 | 886,894 | 1,012,970 | 899,505 | 1,000,505 | 979,671 |
| Total | $37,532,335 | $33,381,584 | $33,530,902 | $34,887,020 | $30,851,980 | $30,807,269 |
| Per Cent of Net Income to Sales | 6.5% | 5.7% | 5.3% | 5.1% | 4.5% | 4.4% |

education, and advertising, all of which, indeed, are in themselves necessary essentials to department store development.

**Characteristics of Modern Department Stores: 1. Central Location.**—The department store usually has the advantage of central location. The department store must be located where crowds can reach it, and it in turn helps to attract crowds. Wherever there is a successful department store there is a trading center.

Figure 41. Edgar Kaufman
President of Kaufman Department Stores, Pittsburgh, an institution with a marked reputation for aggressive merchandising methods and advanced operating policies.

**2. Appeal to Masses.**—The architecture, especially in its modern types, is in every way helpful to the purpose of selling goods. Moreover, it has a prestige in the public mind, carefully cultivated and, in most cases, well-earned, that goes far toward making it a successful popular retail institution.

Big business appeals to the imagination of the people of the twentieth century, especially to the people of the middle and lower financial classes. The big store building suggests class and distinction. To trade there confers distinction upon the



customer. The big store's automobile delivery truck calling at one's residence heightens this effect.

On the other hand, in the great cities, a large part of the trade of the ultra-rich and fashionable goes not to the department stores but to the exclusive specialty shops. The department store is admirably fitted to transact business with the masses. It is essentially the large city store for the masses.

**3. Many Stores Under One Roof.**—Many lines of goods are offered to customers under one roof. Some of the larger establishments have 100 or more departments. A few of the largest have more than 250 different departments. This grouping of all or many classes of consumer goods in one building is a great convenience to the shopper and customer.

**4. Service.**—Special conveniences are usually offered to shoppers whether they buy or not. Under the guise of "service," the modern department store has become a club-house and amusement place for women. One ordinarily finds rest rooms, silence rooms for nerve-tired shoppers, reading and writing rooms, restaurants, information bureaus, post offices, telephone booths, and telegraph stations for the unrestricted use of all. In some stores lectures, demonstrations, style shows, educational courses, musical programs, moving picture shows, and even operas and plays are given. In a few cases, the department store serves as an employment agency for domestic help, as a house and estate agency, and even as a market for corporation securities. Some department stores conduct banking departments, accepting the deposits of their customers and employees and paying interest on these deposits. Hairdressing and manicure parlors, and children's barber shops are regular adjuncts. Play rooms for children, lost and found departments, and free check room facilities are also common. Some of these services have no direct connection with the sale of goods in the store. Most of such services are free. Others such as restaurants, hairdressing, and beauty parlors are made profitable to the store if

Figure 42. Oscar Webber

Vice President and General Manager of the J. L. Hudson Co., Detroit, an organization whose growth in recent years is unparalleled among department stores. In sales it ranks easily as third in this country and probably in the world.





possible. It is probable that but very few of the many department stores conducting restaurants make any net profit directly from them, but they are conducted as means of attracting shoppers to the stores. All of these services are intended to attract people to the store, and to get them into the habit of coming, so that their wants may be satisfied by merchandise offered for sale there.

Several special forms of service in direct connection with the sale of goods are also common. Free delivery, sales on credit, C. O. D. sales, convenient payment plans, goods sent to the homes of customers on approval, guarantees of "money back if not satisfied," and "goods exchanged," are so common now as to merit no more than the remark. While many of these services are extended to their customers by specialty or one-line stores, none have gone farther than the big department stores, and none could profitably do so.

**5. Specialized Organization.**—One of the main factors in department store efficiency is its specialized form of organization. In this respect the modern department store differs from the old-time general merchandise store as day differs from night. In the latter the salespeople, or clerks, as they were called, sold goods in all or nearly all departments. In the department store there is detailed division of labor. Salespeople, for example, do not go beyond their particular departments. This division of labor makes it possible to employ the best people obtainable as heads of departments, who plan and direct the store work, and much cheap help to carry on the routine, detailed work of the store. In the best department stores great care is exercised in the selection of employees, in training them specifically for their work, and in placing them where they will be most efficient. The department store is able to get along with the services of cheaper help in its sales and other departments than most one-line stores, just because of the fine division of labor, and because the work of each employee is carefully

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Figure 42. Oscar Webber

Vice President and General Manager of the J. L. Hudson Co., Detroit, an organization whose growth in recent years is unparalleled among department stores. In sales it ranks easily as third in this country and probably in the world.





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planned and standardized. Heads of departments draw salaries and incomes that average considerably higher than the average incomes of most individual store owners and managers. Buyers receive from $2,500 up to $25,000 per year, averaging perhaps $5,000 per year. For the higher positions, such as merchandise managers and store superintendents, even higher salaries are paid. Department store salaries as high as $50,000 and even $100,000 per year are not unknown. The average salaries for the rank and file are, however, rather low.

Changes may be coming in this respect, however, for as competition grows keener, the demand for more personal salesmanship and more skilful personal management of every detail increases. No plan, no matter how well worked out, can substitute automatic service for human service in dealing with customers. Careful planning is very important, and in the past twenty-five years, the methods of performing store work have progressed rapidly, but when the limits of mechanical devices and of systems have been reached, as they will, no doubt, be, then concentrated attention will follow in bringing up the standards of performance of employees.

Each Department a Separate Store. In a department store, each department or section is usually handled as if it were a separate specialty store or shop. Accounts are kept separately for it, and under normal conditions it must pay its own direct expenses, and its prorated share of the general expenditure for rent, light, heat, power, insurance, office up-keep, and so on, out of its own receipts. In addition to this it must seek to make a net profit.

Each department has an organization of its own for buying and selling goods. This organization consists of its manager or buyer, and necessary assistants such as an assistant buyer, a head of stock, and salespeople. In these respects the department is much like a specialty store. The accounting, advertising, stockroom work, credits and collections, handling of the cash



paid out and received, and the delivery of the goods, however, are carried on for the individual department by central departments organized to serve the entire store. The specialty store, selling one line, has its own accounting, advertising, credit, cash, and delivery departments, but a department store of forty departments, for example, would have but one of each of these departments to serve all of the forty sections. Thus the department store preserves the strong points of the independent specialty shop on the one hand and secures the advantages of cooperation on the other, with a minimum of friction and waste.

**6. Large Use of Advertising.**—Department stores, to exist, must draw trade from large areas, and therefore must advertise. Specialists are employed in this work. It is the task of the advertising department to bring people to the store and to make it easy to sell them goods. Department stores tend to place much more dependence upon advertising as a means of effecting sales than do most other retail stores excepting mail order houses. Department stores are the greatest users of newspaper advertising space. The amount expended annually by department stores runs into the hundreds of millions of dollars per year.

Another feature about department store advertising, in addition to its magnitude, is its specific, concrete presentation of information about goods. The department stores have had to make their advertising productive, and their advertising, like that of the mail order houses, has been of the kind to produce sales. There has been much improvement in advertising technique during the past generation and perhaps nowhere has this been more evident than in department store advertising.

Struggles to Raise Standards of Advertising. In the earlier stages of the use of retail advertising, both exaggeration and dishonesty were frequent. By degrees it became clear to established advertisers that permitting continued dishonesty in advertising would result in the loss of public faith in advertis-

ing and in business suicide for concerns depending upon advertising. The importance of advertising to the success of the department store was so great that it is not surprising that the department stores should have led in the movement to raise the standards of advertising. Even before the movement inaugurated by national advertisers to secure truth in advertising, and long before there was any legal effort to suppress dishonest statements in advertising, department stores not only cleared out the exaggerations from their own columns but began to preach the value of truthful advertising to others.

Probably department stores as a group have been guilty of as much dishonest advertising in the past as any other institution. In view of the fact that department stores have been greater users of advertising than others, it is probable that their responsibility is also greater. Reforms in advertising came about in a very gradual way, although some of the earliest efforts to curb dishonest statements began in the middle of the nineteenth century. It was many years before the rank and file, even of department stores, accepted and began to practice advertising principles prohibiting overstatements and misstatements promulgated years before by the leaders. In fact, though much progress has been made toward cleaner advertising, actual practice still lags far behind the present accepted ethical standards of publicity.

**7. Economics of the Department Store.**—The modern department store is a wonderful business mechanism. At its best it represents very high efficiency in trade-getting, merchandise distributing, and profit making. Its advantages in competition over the specialty, or one-line stores, lie in its conveniences for shoppers, the many lines under one roof, the special services that are so attractive to many people, and the displays of goods in the many different lines carried. Such displays suggest additional purchases to customers, and result in sales that one-line shops could not secure at all. The department store method of distribution actually stimulates new demand, by showing to customers things about which they might not otherwise know anything, and thereby has helped to expand the markets for thousands of new kinds of goods that might never otherwise have found an outlet to the public.



There are a number of economies in department store management not possible in the specialty store. Having one accounting department, one advertising department, one delivery department, and one credit department for the many departments of the store is certainly preferable to such services conducted separately for each department. Such duplication of services exists in connection with a system of distribution through small, one-line shops, and must result in added burdens of expense. How much these savings amount to cannot, however, easily be stated. Attempts at comparison are complicated by the fact that these service departments usually do much more for the departments in a department store than similar service departments do for small, one-line stores. An efficient credit department in a department store, serving 40 or 50 merchandising departments, is able to extend credit more widely because it is in a position to employ more effective collection methods, and is better able to enforce payment of slow or doubtful accounts than the credit department of a small store. A specialty store must refuse credit oftener or run the risk of a much larger loss from bad debts, simply because it cannot give the special attention to credits that the department store credit department is expected to and does give. Similarly, the department store delivery service is rendered over a much wider area, and the accounting service performs many functions in a department store left untouched in a specialty store.

In a real sense the credit, delivery, advertising, and other centralized departments of a department store are illustrations of the practice of cooperation. The advantages urged in favor of cooperative delivery for retail stores, for example, are practically realized as a matter of course in the department stores.

Figure 43. John G. Bullock

President of Bullock's, Los Angeles. One of the more recently established retail concerns, but one of the most successful organizations on the Pacific Coast, and fully representative of the best modern, aggressive retail policies and methods.





**8. High Operating Expenses.**—The advantages of the department store are to some extent counterbalanced by the disadvantages inherent in aggregations such as a department store represents. A large organization incurs new difficulties not found in small stores. The average costs of doing business in department stores are considerably higher than the averages for most small, one-line establishments.

On comparing the items of expense in department stores with those of specialty stores one finds, with some exceptions, that rent is higher, advertising is higher, delivery is higher, salaries run about the same or higher, and bad debt losses about the same or somewhat less.

Rents are higher, as we shall see in a later chapter, because of the central locations of the department stores.

Advertising is higher because the department store must reach out farther for business. It has many more competitors of many more kinds than the average one-line store. It uses its advertising to secure customers. In a measure it substitutes skilled advertising for skilled salesmanship. An advertising expense of from 3% to 6% of sales is not uncommon in department stores, but this is considerably above the average for specialty stores handling the same kinds of goods. Delivery, though done for a number of departments, hence more economically than if done for a single shop, tends to be higher because the department store delivers over a much wider territory than the average one-line store, and in most cases also delivers a much larger percentage of the goods purchased.

The expense of a department store is also increased by its provisions for the convenience and pleasure of shoppers and prospective customers. Competition forces department stores into these things. There is no escape. The tendency seems to be to add more and more of it. Trade must be gained, but the only way to gain it is by getting the people to come to the store. The service factors bring people to the store and must therefore be provided.

INTENTIONAL SECOND EXPOSURE

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The expenditure for salaries in department stores runs about the same as in specialty shops, despite the fact that department stores employ large numbers of persons at the low wage levels. This can probably be explained by the high salaries paid to the executives and managers. The totals as well as the averages are raised by these. It is also probable that the departmentization of employees and the difficulty of organizing the work so as to keep them all fully employed all of the time results in more or less waste of time, all of which the store must pay for. Small stores have such losses too, but there is usually greater flexibility in management of employees, so that employees not employed in selling are usually set to work at something else. This item of loss is not by any means uniform. Efficient stores, both large and small, attempt to reduce it to a minimum.

**9. Wasteful Leaks.**—The department store, even when most carefully planned and operated, is a place where there may be a thousand leaks. Hired employees are proverbially less diligent and watchful than people in business for themselves. Carelessness, loss of materials, soiling materials, spoilage, leakage, breakage, and so on, are likely to occur more freely in the big store than in the small store. Only eternal vigilance can keep such losses down, and there seems to be more danger of slackening in vigilance under hired eyes than under proprietor's eyes.

The department store must spend much money and time in developing its system, in keeping its records and accounts, while in the small store, the manager-owner can carry much of such information in his head, and need spend no time in working it out on paper. This economy in the small store has decided disadvantages. It is probably carried too far by most small retailers. Undoubtedly, much could be gained by the small store manager by borrowing something from the department store manager's thoroughgoing manner of getting at the exact



facts of the business. Probably most small retailers should spend more for records than they do, but whether this is true or not, the fact remains that the department store spends much money in getting up information that the small, one-line retailer is getting along without.

**10. Low Personnel Efficiency.**—Finally, the department store type of employee as represented by the salesperson and other rank and file workers, is usually weak. There are exceptions and notable ones, but the general rule in department stores is poor salesmanship. Poor selling ability is common enough in small stores also, but, generally, the specialty store selling high-grade, higher-priced goods, has better selling ability. As it is, much of the efficiency of the department store gained by its location, its window displays, its advertising, its thorough and systematic sales plans, is lost simply because the salespeople and other employees coming in contact with the customers fail in their important work. Not only are opportunities for making sales lost, but when sales are made, they are often wrongly made. The result is disutility and dissatisfaction. The retail store, whose great social function it is to serve the public, or that much of the public that comes to it, fails to perform its service in a creditable way because the employee whose duty it is to represent the store in dealing with the customer does not know how to do his work properly. The fault of poor selling is not the employees' but rather it is that of the system of big stores that offer little encouragement and less real help to develop selling ability.

**Recent Developments: 1. Lower and Higher-Priced Departments.**—Among recent developments in department store administration is the rapid spread of the establishment of lower and higher-priced merchandise departments. Many department stores which had grown rapidly down to about 1920, found that large parts of their business had been developed on medium priced lines of goods. The stores had

grown by catering to customers of fairly high standards of living. Desirable as this trade might be, it was felt by many department stores that further progress in volume could only be secured by attracting new groups of people to the store, particularly those with somewhat lower standards of living, and, therefore, prospective customers for lower-priced lines. It has always been found difficult to handle trade of different economic classes of people in the same departments. Usually, stores attempting to draw trade from several classes of distinctly different economic levels to their regular departments, have found that their trade naturally gravitated either in the direction of customers with higher purchasing means or, more often, to customers with lower purchasing power. The establishment of lower-priced departments, separated from the regular departments of the store, is a method intended to overcome these difficulties. Through this method the regular trade upon which the store has built its regular department business is not disturbed, but new fields of consumers are opened up in these departments.

Sometimes such additional departments are established close to the regular departments, perhaps on the same floor. In others they are separated entirely. Physical separation is secured by putting them on another floor, and separate management is secured by having entirely different buyers, salespeople, and other assistants.

Most of the lower-priced merchandise departments have been established in store basements or annexes. Many of them located in basements are called "bargain basements," "economy basements," or "basement stores." In some of the best known stores in the country such as Marshall Field & Company, J. L. Hudson Company, William Filene's Sons Company, John Wanamaker, and many others, the bargain basement or basement store practically duplicates many of the varieties of goods handled in upstairs departments but at lower-priced levels.

Basement stores and bargain basements have in many in-

Figure 44. Elmer F. Wieboldt

General Manager and Vice President of Wieboldt Stores, Inc., Chicago, a highly successful chain of department stores operating outside of the "Loop" or downtown shopping center in Chicago and its suburbs. Elmer F. Wieboldt is representative of the younger type of present-day retail executives, well-educated, trained in modern methods, and accustomed to meeting the problems of the store with scientific procedure.

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stances been found very profitable ventures. The reputation gained by the store for its regular merchandise lines serves to attract immediate trade to its new lower-priced departments. It does not appear that the gains in business in these new departments have in any way been made at the expense of the regular departments, thus indicating that the opening of the new departments definitely tapped channels to new groups of customers. While price lines handled in these new departments are lower, operating expenses are likewise usually somewhat lower, movement of merchandise is more rapid, and these so-called "bargain departments" are often the most profitable from the standpoint of the store.

Some basement stores deal, or attempt to deal, exclusively in odd lots or job lots, remnants, odds and ends of merchandise offered at bargain prices. Merchandise found unsalable in the regular departments is sometimes sent to the bargain basement. Most of such merchandise, however, is purchased at bargain prices in the markets. Other stores conduct lower-priced departments on regular lines of merchandise in full regular assortments comparable in every way to the merchandising of higher-priced departments. Filene's bargain basement is a good illustration of the first type. Marshall Field's basement store is an illustration of the second.

Bargain basements of the type conducted by Filene's in Boston in some cases utilize the Filene policy of securing rapid turnover by making automatic price reductions on all goods that do not sell within a stated number of days. If goods so marked down do not then sell within another, but shorter period, they are again marked down, and this process continues until purchasers are found. If not disposed of within a final time limit, they are given away to charities.

**2. Suburban Stores and Suburban Branch Stores.**—Another recent development among some of the larger metropolitan department stores is the tendency to establish suburban



branches. The growing traffic difficulties in downtown streets and the competition from outlying small stores and department stores have made department store managers think intensely of the possibility that department store growth in congested areas is faced by very definite limits. The success of systems of suburban stores such as Ed Schuster's three stores in Milwaukee and Wieboldt's four stores in Chicago, to mention two outstanding cases, is proof of the fact that suburban trading centers are making progressive gains in holding department store trade. Several of the largest department stores of the country have recently established suburban stores either by purchase of stores already in existence or by building new stores. The movement to establish suburban branches seems likely to spread.

**3. Waves of Interest in Operating Problems.**—A backward look at the history of department stores shows that there has been a series of waves of interest in and development of various phases of department store administration. For example, in the period beginning at about the opening of the present century and for years thereafter, there was a very keen interest among the leading department store managers in accounting and in using accounting as a means of administration and control as well as a measure of financial progress.

Although there had been earlier beginnings, a wave of interest starting about 1910 swept the department store field on the possibilities of education of employees. In the period from 1910 to 1916, educational departments for the training of retail salespeople and other employees were established in most of the American department stores.

During the time of this country's participation in the World War and for some years following, deep interest of department store managers centered in methods of meeting problems of personnel, such as scientific employee selection, methods of remuneration, methods of measuring work done, and so on.

Since 1921, department stores generally have become very much interested in the possibilities of merchandise unit stock control, of more intensive and systematic methods of sales promotion, and, particularly, in the possibilities of cooperating with other stores in the purchase of goods and other activities.

**4. Department Store Mergers.**—One of the most recent developments is the combination or merger movement. Specific instances of this development will be mentioned and described in the chapter on chain stores. In conclusion it may be stated that there are, at the present writing, very few department stores that are not now members of combinations or that are not members of cooperative groups of one kind or another. Probably not a single successful department store remains that has not been urged and has not considered the possibility of selling out to a combination, or of joining a voluntary chain group.

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# CHAPTER VII

## THE MAIL ORDER HOUSE

The development of the mail order business on a large scale was one of the most remarkable commercial events of the latter half of the nineteenth century. While goods have been bought and sold by mail as long as postal systems have existed, and by messengers before post offices existed, retail establishments depending for business entirely upon mail orders or departments of retail stores set up to handle nothing but business by mail, are very modern institutions.

**Beginnings of the Mail Order Business.**—It was customary during American colonial days for the wealthier consumers to send orders for many classes of goods such as garments, fabrics, laces and embroideries, china and glass, and home furnishings to the older countries in Europe. This business continued on a relatively large scale up to the time of the Revolutionary War. At the close of the war these relationships were renewed to some extent but not immediately. The several years of fighting with England broke off the consumer trade formerly carried on with that country. To a considerable extent, French goods replaced English goods. However, the impoverished condition of the country for several years following the war prevented the renewal of consumer purchases on the scale that had prevailed before 1775.

In the early years of the nineteenth century, American retail trade developed and improved rapidly. Retail stores dealt largely in imported goods and, as they became available, in goods of domestic manufacture. Following the War of 1812-1814, consumer trade with the mother countries declined. Importation





grew but passed mainly through the hands of importers and dealers.

Westward-moving settlers in the early part of the nineteenth century frequently ordered goods by mail for transport over the early wagon routes and later by canal and railroad from the retail stores of the large eastern centers. It seems possible that nearly all of the well-established dry goods, cutlery, china, and glass stores in New York, Philadelphia, and Boston enjoyed a certain amount of mail order business from distant customers throughout the entire nineteenth century. One may find occasional mention of such trade in the correspondence of western families of the time.

Retail stores probably handled this early mail order trade entirely as a side line and as a convenience to former customers and others who had moved to distant parts of the country. It is probable that price lists were issued from time to time for the benefit of these customers, but it is not known that any systematic promotion comparable to that found in recent years was carried on to secure mail order business.

The earliest intensive wide-scale efforts to secure business exclusively by mail seems to have been made by E. C. Allen of Augusta, Maine, who started national advertising on specialties such as recipes for washing powder, engravings, chromos, and novelties, as early as 1870. Allen's success led to rapid imitation close at hand. Augusta, Maine, became and for many years continued to be the most important mail order center in the United States. Several so-called "mail order periodicals" were established, such as the household magazine, *Comfort,* and a list of periodicals published by Vickery and Hill, carrying mail order advertising, and sent to patrons of mail order concerns all over the country. During the 1870's a rapid growth of mail order selling paralleled a similar growth of canvassing and peddling activity that grew up during the same time.

Figure 45. Aaron Montgomery Ward (1843-1913)

Founder of Montgomery Ward & Co., Chicago, the oldest of the general mail order houses now in existence. Frequently called the "Father of the General Mail Order Business."





**Montgomery Ward & Company.**—The first of the great mail order concerns, now in existence, was established in Chicago by A. Montgomery Ward in 1872. The story of the rise of this business is a romantic chapter in the development of American commerce.

Aaron Montgomery Ward was born in Chatham, New Jersey, February 17, 1843. When he was eight years of age his father suffered business reverses and the family moved to Niles, Michigan. Here Montgomery Ward went to school until he was eleven years old. He thereafter went to work at various jobs up to the age of fourteen, when he was apprenticed to learn a trade but gave this up when his family moved to St. Joseph, Michigan, where he went to work in a general merchandise store for $5 a month and his board. This store's trade came largely from farmers and it is probable that his first impressions of the possibilities of retail service to country people were formed in this position.

Three years after he had entered the general merchandise store in St. Joseph he had progressed so rapidly that he was put in entire charge of the store and received a salary of $100 a month and board.

In 1865, he went to Chicago and found work in the wholesale dry goods house of Field, Palmer and Leiter, the forerunner of Marshall Field & Company. Two years later he was employed by Willis, Gregg & Brown, also in the wholesale dry goods business in Chicago. Shortly afterwards he became a traveling salesman for the wholesale dry goods concern, Walter M. Smith & Company of St. Louis. A little later he returned to Chicago and worked for C. W. Pardridge & Company, later Hillman's, and was in their employ at the time of the great Chicago fire of 1871. The fire not only destroyed his place of employment but must have upset any plans he may have had for advancement. Following the fire there was a rush of many new hands into the business and in the latter part of 1871 Montgomery Ward started to plan a mail order business for

which his experience and contacts with both retail and wholesale stores, together with his work as a traveling salesman, gave him splendid equipment.

Soon after he reached Chicago, the "Granger" movement began to spread rapidly throughout the Middle West. The chief purpose of the Order of the Patrons of Husbandry, which had but recently come into existence, was to improve economic conditions of the agricultural classes. Among the methods urged were consumers' cooperative stores and the distribution of goods directly from producers to consumers. The attention called to the farmer's problems by the spread of this new movement, linked with his experience with farm trade while in St. Joseph, probably aided Montgomery Ward in perfecting his plans for mail order retailing.

The first storeroom occupied by Ward in 1872 was a hay loft over a stable on East Kinzie Street. His entire capital was about $2,000, partly borrowed. A one-page handbill naming various items of goods and their prices was sent out by mail. In the years from 1872 to 1874, Ward issued ten of such one-page handbills. The first catalog, a small pamphlet of only eight pages, size 3″ x 5″, was issued in 1874. By 1876, the catalog was increased in size to 150 pages, and pictures of the merchandise were included for the first time. The sales for that year amounted to $300,000. By 1880, the sales had increased to $410,000. Ten years later, in 1890, the sales amounted to $2,411,000 and in 1900 to $8,886,000. By 1906, its sales volume had reached $18,000,000 and and by 1913 it had risen to $40,000,000.

The original purpose in Ward's mind in 1872 appears to have been to serve as a supply house for farmers and granges or the local branches of the Patrons of Husbandry. The earliest circulars were addressed to "Granges, farmers and mechanics." The lines of merchandise offered included dry goods, clothing, hats, caps, boots, and shoes. Goods listed were not always carried in stock and certainly not in sufficient stock to take care



of the demand. When orders from customers came in during the early years, Ward often filled these by going around and making purchases direct from his wholesale acquaintances or even from retail stores. Year by year additional lines were added.

Soon after starting his business, Montgomery Ward brought his brother-in-law, George R. Thorne, into the business. These two men and their families continued to conduct the business as a partnership down to 1888, when it was first incorporated and then as a corporation down to 1913. Reorganization took place in 1913 and again in 1921. A. Montgomery Ward died on December 7, 1913.

The sales of Montgomery Ward & Company reached a peak of $101,745,000 in 1920, just before the business depression of 1920-1921, which caused the company enormous losses. Changes in management and important readjustments were then made. T. F. Merseles, who had been an executive in the National Cloak & Suit Company of New York, since 1903, was

TABLE 8. YEARLY SALES OF LEADING MAIL ORDER CONCERNS, 1912–1928

| Year | Sears, Roebuck & Company | Montgomery Ward & Company | National Bellas Hess Company |
|---|---|---|---|
| 1912 | $ 77,116,859 | $ 35,000,000 | $10,911,866 |
| 1913 | 91,357,276 | 39,725,713 | 13,276,259 |
| 1914 | 96,024,754 | 41,042,486 | 15,164,727 |
| 1915 | 106,228,421 | 49,308,587 | 17,371,650 |
| 1916 | 137,200,802 | 62,044,336 | 21,554,230 |
| 1917 | 165,807,600 | 73,512,645 | 27,649,537 |
| 1918 | 181,655,829 | 76,166,848 | 33,485,015 |
| 1919 | 233,982,584 | 99,336,053 | 39,449,985 |
| 1920 | 233,856,872 | 101,745,270 | 47,704,428 |
| 1921 | 159,034,518 | 68,523,244 | 37,481,210 |
| 1922 | 160,648,152 | 84,738,826 | 45,357,566 |
| 1923 | 191,324,146 | 123,702,043 | 52,399,783 |
| 1924 | 199,545,862 | 150,045,065 | 49,225,804 |
| 1925 | 234,421,930 | 170,592,642 | 46,685,376 |
| 1926 | 248,550,341 | 183,800,865 | 42,872,399 |
| 1927 | 268,731,794 | 186,683,340 | 44,665,419 |
| 1928 | 319,773,787 | 214,350,446 | 44,649,102 |

brought into the company and made president. The sales in 1921 dropped to $68,500,000. Since 1921, however, Montgomery Ward & Company has not only recovered its former sales levels but has continued to forge ahead. Its sales growth, year by year, is shown in Table 8.

One of the marked recent changes introduced into the business of Montgomery Ward & Company since 1921 has been the establishment of a chain store system, beginning first of all with retail stores at the mail order distributing points in Chicago and the branch houses, and extending more recently to the establishment of an extensive system of retail stores throughout the country. Published statements for the company indicate the intention to have a chain of more than 1,500 retail stores.

**Sears, Roebuck & Company.**—This concern has likewise had a most remarkable development. In point of sales it is not only the greatest mail order house but, at the same time, one of the greatest retail mercantile institutions in the world. Richard W. Sears, its founder, was born December 7, 1863, at Stewartsville, Minnesota. He attended grammar school at Spring Valley and high school at Mankato down to 1880. At the age of seventeen it became necessary for him to assume the support of his family. He took a position as railroad station agent at North Redwood, Minnesota, where his duties included handling shipments and selling tickets in connection with the two-trains-a-day service that passed through that station.

In 1884, he received a package from a mail order watch concern to be delivered C. O. D. to a customer in this little Minnesota town. The customer could not be found and Mr. Sears notified the company. Their reply was to urge him to sell the watch to some one else at a profit of $2, and he did so. This venture led him to order more watches and to sell them at a similar profit. The prospects of this business proved so attractive that in 1886 he left the employ of the railway company and started a mail order watch and jewelry concern in Minne-

Figure 46. Richard W. Sears (1863-1914)
Founder of Sears, Roebuck & Co., general mail order house, Chicago.

INTENTIONAL SECOND EXPOSURE



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Figure 46. Richard W. Sears (1863-1914)
Founder of Sears, Roebuck & Co., general mail order house, Chicago.

apolis. Early in 1887, he employed A. C. Roebuck as watch adjuster and in 1889 he made Roebuck his partner. Somewhat later this concern was moved to Chicago, and in 1890, when Mr. Sears was twenty-seven years of age, he sold this concern for $100,000. As a condition of the sale he agreed not to establish another mail order concern in the city of Chicago under his own name for five years.

Sears next returned to Minneapolis, and in 1893 formed another company which was called A. C. Roebuck & Company. Later this was changed to Sears, Roebuck & Company. Its first catalog was issued in 1893. This concern proved even more successful than the first. Its business in watches and jewelry grew rapidly from 1890 down to 1895. In 1894, a number of other lines were added, including bicycles, clothing, sporting goods, and harness. A large catalog was put out and marked with a retail price of $1 a copy. House-to-house canvassers were employed who traveled about the country in horse and buggy outfits and sold many thousands of these catalogs at $1 each.

In 1894, A. C. Roebuck retired from the business and in 1895 Sears again moved to Chicago. In that year a corporation was formed under the laws of the State of Illinois. Roebuck's interests were purchased by Julius Rosenwald who, when the concern was moved to Chicago, became associated with Sears as vice president. This organization continued until 1906. At that time a reorganization was carried through. Julius Rosenwald, then vice president and treasurer of the firm, with the help of a number of his friends, bought out Mr. Sears' interest and Mr. Sears retired from the business, although his name was retained on the board of directors to retain the confidence and goodwill of the public in the new management. The firm was reincorporated under the laws of the State of New York.

Since 1906, and with the exception of the period of business depression in 1920-1921, Sears, Roebuck & Company has enjoyed a remarkably successful growth. During the first year

Figure 47. Julius Rosenwald

Chairman of the Board of Directors and formerly, for many years, President and active directing head of Sears, Roebuck & Co., Chicago, largest mail order house in the world.

of the reorganization ending in 1907, its sales amounted to somewhat more than $50,000,000. By 1919, the sales had risen to nearly $234,000,000 but fell in 1921 to $159,000,000. Since 1921 the concern has again enjoyed uninterrupted enormous growth. Its plans for the future are as aggressive as those of Montgomery Ward & Company. Unless prevented by unforeseen conditions both are likely to become billion-dollar businesses.

Beginning in 1909, Sears, Roebuck & Company started its system of branch mail order houses, the first of which was established in Seattle, Washington. By 1910, other branches followed covering the country in such a way as to permit delivery on all orders received from customers within one or two days after receipt of the order.

Beginning in 1925, Sears, Roebuck & Company launched its plan for the establishment of an extensive chain of retail stores. As in the case of Montgomery Ward & Co., the first stores were established in the mail order distributing houses and branches. These, however, were followed by retail stores at other points. The Sears, Roebuck & Company system of stores, as originally planned, consisted of stores of three classes known, respectively, as Class "A" stores, really department stores located in the largest cities; Class "B" stores, smaller, but offering a fairly general line of goods and located in smaller cities; and Class "C" stores, specializing in the retailing of such commodities as automobile tires, radio sets, and so on. These retail stores, it was announced, were to supplement the mail order business and to make it possible to reach consumers all over the country.

In 1924, Julius Rosenwald retired as president of Sears, Roebuck & Company and became the chairman of its board of directors. C. M. Kittle was elected president and continued in this position until the time of his death in 1928. General R. E. Wood was then made president of the organization.



**Other Mail Order Concerns.**—Spiegel, May, Stern Co., of Chicago, founded in 1882, is another mail order house devoted to the sale of household goods, usually on credit. Its business is conducted through both mail order and retail stores, of which it has a small chain in Chicago. Its sales in 1928 amounted to over $20,000,000.

The National Bellas Hess Company was preceded by the National Cloak & Suit Company and the Bellas Hess Company. The National Cloak & Suit Company, the older of the two houses, was established in 1888, by Hartman & Rosenbaum. This concern continued down to 1894, when the ownership was changed to Maurice Rosenbaum & Son. This continued from 1894 down to 1903. Following 1903, the son, S. G. Rosenbaum, continued as the head of the business for twenty years. On his retirement Herbert C. Freeman was made president. Combination with Bellas Hess Company took place in 1927, and the Charles William Stores, a general mail order concern, located in Brooklyn, was added to the organization in 1928. This organization has also entered the chain store field.

The Larkin Company of Buffalo, a combination of a mail order and house-to-house selling organization is a concern of unique character. It was established in 1875. The Larkin Company began as a soap manufacturing concern, and during the period from 1875 to 1885 carried on its sales through the regular channels of wholesalers and retailers. Its history as a mail order concern began in 1885, for that year the Larkin Company began to distribute directly to consumers by the mail order method, offering goods on "Thirty days' trial and pay if pleased." It also offered an extensive list of premiums in connection with the sale of its regular goods and for giving assistance in securing orders from new customers. In addition to the various soaps and washing powders making up its original line, tea, coffee, flavoring extracts, and other grocery products were added. To insure orders of profitable size, customers were

offered specialized lots of goods, "$20 worth of products for $10." Among the Larkin premiums that have been widely distributed in connection with the sale of their grocery products were many thousands of piano lamps, Morris chairs and the famous "Chautauqua desk" which found its way into many thousands of homes.

In recent years, branches of the Larkin Company have been established in the principal cities of the country to permit prompt delivery and better sales promotion.

Many additional lines have also been added to the original list of Larkin products, including apparel and home furnishings as well as food products, toilet goods, perfumeries, jewelry, and silverware.

In 1916, the Larkin Company began to establish retail stores. By the end of 1917 it had 5 stores in operation and by 1928 it had more than 200 stores. These stores specialize in food products and combine some of the features of groceterias with service stores. In addition to its regular chain store business, it also conducts a department store in its plant at Buffalo with sales estimated in 1926 at $2,500,000 and a turnover of 10 times per year.

One of the characteristic methods of sales promotion followed for many years by the Larkin Company has been its consumers' clubs called "Clubs of ten," and "Clubs of five." Groups of ten or five housewives are organized, each paying a dollar a month or some similar sum and each obtaining in turn from these contributions Larkin products or premiums. The organizers of these groups receive a bonus in merchandise or in cash for each group organized. Some of the organizers, or club secretaries as they are called, conduct a number of groups at the same time.

The Larkin business at the present time consists of sales made directly to consumers, from catalog by mail orders, of sales made to groups of ten or groups of five, and of sales through the Larkin chain of retail stores. The total of Larkin's sales volume is not published but it must amount to several millions of dollars.



**Mail Order Departments in Department Stores.**—As already indicated, from their earliest days, the larger dry goods stores and the department stores, after they came into existence, must have had considerable sales as a result of orders coming in by mail. During the period of rapid development of the mail order method of distribution in the 1880's and 1890's, department stores were stimulated to efforts to secure some share of this business by the establishment of mail order departments within their own organizations. Down to 1910 or even later, it was the custom of most of the stores to issue mail order catalogs, some of which were very comprehensive and exceedingly well prepared.

About 1910, or perhaps somewhat before, some of the department stores throughout the country that had aggressively pushed their mail order business, began to question whether such promotion was profitable. Evidently, some of them concluded that it was not, for retail stores that had formerly issued catalogs regularly either annually or semi-annually, began to omit them. R. H. Macy & Company, always in the forefront of discovering means of cutting the costs of distribution, was one of the first of the large stores of the country to eliminate its mail order catalog. In years following, one large store after another took the same course. During the period of the World War and particularly in the years immediately following, with the unsettlement of prices and the costs of mail order promotion rising rapidly, the majority of American department stores that still had mail order departments dropped the practice of issuing regular mail order catalogs. There are now very few department stores with regular mail order departments issuing periodical catalogs. The best known department store mail order business on the American continent is that of T. Eaton & Com-

pany of Toronto, with stores and branches in many other cities. In this concern, however, the mail order business is said to be entirely separate from the department store business. Its mail order volume is also said to be fully as important as its regular store business, if not more so.

Nearly every store of any consequence receives considerable business by mail orders. Many stores promote the sales by mail, but they do not attempt putting out season catalogs and carrying stock to support these catalogs as they formerly did. Mail orders are filled from regular, current stocks only.

In many cases the mail order catalogs were replaced by an increased use of direct mail advertising matter or booklets, circulars, lists, and so on, but, obviously, intended to serve an immediate and temporary purpose instead of as a manual on merchandise values good for six months.

The great difficulties encountered by the regular large mail order house in 1920 and 1921 of meeting the rapid value declines in their inventories similarly affected the mail order departments of department stores. The marked tendency toward hand-to-mouth buying, prevalent since 1921, has likewise discouraged retail plans of operation involving the issue of bulky catalogs and making stock preparations to insure prompt handling of orders received from catalog customers. Altogether, the movement of the times in the retail store business has apparently been away from the mail order method.

A mail order business of considerable volume is transacted through the shopping departments conducted by the fashion and home magazines for their readers, as well as by professional shoppers located in the larger cities who make personal selections for their customers in the retail stores of the city. The shopping carried on by periodicals or by professional shoppers is usually remunerated by commissions or discounts allowed such organizations by retail stores. There is no way of estimating the total volume of such mail order shopping.



**Specialty Mail Order Business.**—When the mail order business is mentioned, both students and business men are likely to think of Sears, Roebuck & Company, Montgomery Ward & Company, and other similar large general mail order institutions as representatives of this type of retail marketing. While the total sales of these mail order houses, as well as of the mail order departments in department stores, are very large, there are literally hundreds of other concerns making all, or part, of their sales to consumers by the mail order method. On looking through the advertising pages of almost any periodical one may see the extent of this business both in point of numbers of concerns and varieties of goods offered. An entire group of periodicals and magazines going into homes is termed by advertising men "mail order periodicals." Most of the advertising carried by these is from concerns who make their sales through this method.

Among the commodities extensively sold by the mail order method are books and subscriptions to magazines, home furnishings, frequently offered by mail on the instalment plan, jewelry, watches, garden seeds, flower seeds, bulbs, nursery stock, medical preparations, cosmetics, clothing, dress accessories, tools, and novelties.

Many publishers of books, periodicals, music, maps, and other printed matter, secure most of their sales through the mail order method. There is an extensive business conducted by mail in the sale of correspondence courses and educational reading courses covering almost every branch of human learning. Certain specialty food products such as fruits, nuts, dairy products, fish and fish products, jellies, jams and preserves, and even vegetables are sold by mail. There is a considerable volume of business by mail in musical instruments. Office supplies are sold by mail as are also securities and even life insurance. One concern, the Postal Life Insurance Company, depends upon the mail order method exclusively for its new business. The Kalamazoo Stove Company has had an enormous business

in household stoves. The Gordon-Van Tine Company of Davenport, Iowa, sells lumber ready cut for houses and garages all over the country. Some of the mail order jewelry concerns, such as Daniel Low & Company of Salem, Massachusetts, Jason Weiler & Sons of Boston, J. Lynn & Company and L. W. Sweet, Inc., of New York, and Loftis of Chicago, have conducted successful mail order businesses for many years.

In the aggregate, the volume of business transacted by the specialty mail order concerns must be enormous, probably fully as much as the total of all mail order business transacted by the large general mail order houses and the mail order departments of department stores combined.

**Conditions Favoring the Growth of the Mail Order Business in America.**—The mail order method of distribution to consumers may be found to some extent in all parts of the world. It is, however, a method that is most highly developed in the United States, Canada, Australia, and other parts of the British Empire, and to a considerable extent in France and the French colonies. Though occurring, as already indicated, to some extent in all countries, it is clearly a method of marketing consumers' goods reaching its highest levels in comparatively new and growing countries. The mail order business has had a remarkable growth in the United States, greater than in any other country and also possibly greater in proportion to population and purchasing power. The rapid development of the interior and western parts of the United States during the past fifty years has supplied some of the conditions especially favorable for the progress of this method of distribution.

1. **Former Isolated Farm Life in America.**—Up to recent years, the typical American country dweller lived an isolated life. His home was located on his farm, distant not only from town but from neighbors as well. Farmers in older countries live in villages and are thus closer associated with each other, as well as with their local shopkeepers. The isolation of the



farm home in America has been given as one of the reasons for the independence of spirit, a characteristic quality that is at once a strength and a weakness of the typical American farmer. On the whole, the farmer has felt very little interest in the upbuilding of his community or in anything but his own farm and family. Unlike the farmer of the older countries, he has felt no particular interest in his nearest town and was as likely to entertain a suspicion or dislike for townsmen. This indifference and even antagonism toward the town was common in earlier years throughout America. Under these circumstances it was not surprising that when the opportunity to trade by mail presented itself it met with but little traditional opposition. The farmer was as ready to trade with a mail order house in a distant city as to trade with a retailer in the nearest village.

2. **High Literacy and Wide Circulation of Periodicals.**—The mail order business is almost absolutely dependent for success upon the ability of its customers to read and write. The rapid spread of popular education in the earlier years of the nineteenth century, even to remote country districts, has undoubtedly been an important factor preparing the way for the successful growth of the mail order business. Conditions of high rates of literacy have carried with them a widespread circulation of popular periodicals sold at low subscription rates but exceedingly profitable to their publishers because of the great amount of advertising carried. Much of this advertising at all stages has been mail order advertising. The entire trend in periodical reading has contributed to the development of the mail order business. The reading matter in the form of news, fiction, sport columns, and even the illustrations, has helped to stimulate higher and more expensive standards of living, and advertising has shown the way to satisfy the wants of these new standards.

3. **Increased Earning Power of the People.**—The mail order business has not only been extensive and profitable in the

country districts but also in the industrial centers. Wherever there were masses of people with increasing incomes and rising standards of living there were markets for goods sold by mail. The mail order business has always prospered most during those periods in which the standards of living were rising most rapidly.

**4. Inadequacy and Unpreparedness of Local Retailers.**—The small independent retail merchants, particularly in the smaller towns, were in many cases unable to meet successfully the growth of the progressing demands of their customers. In numerous cases throughout the 1890's and 1900's, the regular retailers seemed unaware of the changes going on in consumer demand. In many other cases they knew that changes were being made but could not see in what direction they were going. Often the customers of retail stores had transferred a large part of their trade to mail order concerns before the local retailers learned anything about it. Customers lost any habits they may have had of trading with local retailers and sought merchandise where there were more adequate stocks and newer styles offered.

**5. Lower Prices.**—From their beginnings, the mail order concerns based their appeals on lower prices. In the earlier days mail order house catalogs presented masses of price comparisons. There was frequent use of leaders of well-known goods at cut prices to prove that prices were lower. Mail order houses urged that by their method of distribution important savings were made, and the larger concerns pointed to their buying power as a proof of their ability to offer goods for less than small-town independent retailers. The advertising methods of mail order concerns have changed greatly in recent years. Price comparisons are now made infrequently. Claims that savings are offered to the consumer by the elimination of middlemen and by the use of quantity buying power have been greatly toned down, but the suggestion that the mail order method



offers great economies to the customer is still very effectively used.

**6. Convenience of the Mail Order Method.**—Not the least of the factors favoring the development of the mail order business has been the opportunity for the customers to study the catalogs, price lists, and other descriptive matter in careful detail without the urging or even the presence of salespeople, and in the privacy of their homes. The general mail order house catalogs have served the American public as veritable text books on merchandise and their uses. No one can deny the great education in merchandise and merchandise values that the American public has gained from mail order catalogs. There are inconveniences in mail order buying, such as the necessity of placing orders before seeing the merchandise, making payment in advance of the receipt of the goods, waiting for the goods, and, in the past, having to pay transportation and other expenses. In all of these respects the local retailer enjoys the advantage over the mail order house but the opportunity to study the catalogs before placing the order was to most customers not only a real advantage but probably a pleasure as well.

**7. Guarantees.**—One of the most effective steps taken by the mail order house to establish confidence and secure business was the early adoption of unconditional guarantees on all goods sold. These guarantees went much further than the guarantees of other retail institutions at the time they were laid down by the mail order houses. They assured the customer that every article purchased would give full and complete satisfaction. If, for any reason, the customer desired to return the merchandise, he might freely do so without question and might have other goods instead or his money refunded, whichever he desired. Any transportation charges paid out would be refunded. It was thought by many retailers that this policy would result in such great numbers of returns as to wreck the business. Although returns in mail order houses run into considerable amounts,

ranging from 5% to 10% of total sales, it has been found an exceedingly profitable policy because of the great increases in business secured from consumers who might not otherwise order anything.

**8. Truthful Advertising.**—Leading mail order houses were among the earliest retail concerns to take steps to insure truthfulness of statement in their own advertising. The earlier mail order advertising of the 1880's and 1890's, particularly of the specialty mail order houses, was full of exaggeration and dishonest statements. A continuance of these practices would have destroyed the possibilities of building a substantial mail order business and would probably have wrecked the effectiveness of advertising itself. Following a consistent policy of truth telling, or at least attempting to do so, turned out to be a very profitable policy in the long run. Mail order customers believe the statements made in the advertising and catalogs of the mail order houses.

**9. Mail Order House Aided by Development of Post Offices.**—The mail order method of distribution has undoubtedly been greatly benefited by the progress made in the improvement of the post office system. The one-cent postal card came into use in 1873, the two-cent postal rate on first-class letters was established in 1883. For many years during the early stages of the development of the mail order business they were permitted to ship their catalogs and other advertising matter as second-class mail at the very low second-class mail rates. Later, this was modified so that the expenses of shipping catalogs were considerably raised and, as indicated in the chapter on independent stores, an effort was made by competing interests to crimp the development of the mail order house by the passage of the parcel post zone system following 1912. The mail order house met this new condition very easily by establishing distributing points for their catalogs as well as their merchandise in widely scattered cities, by shipping their catalogs and merchandise in



freight carload lots to these distributing points and then redistributing to local addresses at the low first and second zone postal rates. The development of branch houses and warehouses during recent years by the larger mail order houses has not only eliminated any discrimination against the large mail order houses intended in the postal zoning system but has turned out to be a help. Some of the larger mail order houses now pay the postal charges and also the freight on all goods ordered by mail.

**10. Improved Service.**—The mail order houses have been very active in improving their internal operations to the end that customers might receive their goods as soon as possible. Every possible modern mechanical device has been utilized in the offices of the larger mail order concerns in the handling of orders, such as letter openers, duplicating invoice typewriters, pneumatic tubes, gravity conveyors, checking systems, and time scheduling of all operations. An order goes through a mail order house on a time schedule as definitely worked out and as carefully followed as time schedules in the best managed railroad systems. Each order, as it is received, is given its time table, which provides for each operation required in filling the order to be performed within a certain time, and the order completed and merchandise shipped at a certain time. A 24-hour shipping service is now practically the universal rule in well-managed mail order concerns.

**11. Effective Merchandising.**—As indicated above, there have been many conditions favoring the development of the mail order business, such as the economic and social progress of the country, the inability of the older retailing systems to take care of the rising consumer wants, and the development of mail order efficiency in giving consumers satisfactory service. These conditions, however, form merely the background for the real explanation of the progress of mail order distribution, namely, effective merchandising. The successful mail order houses have

shown marked success in interpreting and even in anticipating consumers' wants. New varieties of merchandise or varieties with but a limited previous use were given a place in mail order catalogs and in many instances the sales therefrom justified the daring of the mail order merchandising managements.

The big mail order houses, through their catalogs, placed extensive lines of merchandise within reach of consumers whose only shopping alternatives were small stores with very limited stocks. For several years the two largest mail order concerns have listed from 30,000 to 40,000 items as against 3,000 or 4,000 items to be found in the typical general merchandise stores or 8,000 to 10,000 items found in fair-sized department stores.

The mail order houses have been especially successful in developing modifications in the production of expensive goods, making them available to the public at much lower than usual prices. In almost numberless cases mail order house buyers have worked with manufacturers, planning products at lower costs of production or of considerably greater utility at the same costs.

Mail order merchants have, in many cases, carefully sought for and concentrated their marketing efforts on articles of merchandise of fairly wide sale but with high marketing margins made necessary by the older and more expensive methods of selling. For example, sewing machines, cream separators, and pianos, which usually carried gross margins almost, if not, fully equivalent to the costs of production, were boldly selected by mail order houses, given powerful advertising promotion, but offered at prices far below the usual prices on such products. The radical reductions in these prices as compared to the prices charged by regular retailers attracted large volumes of business to the mail order houses. It has constantly been a policy of the mail order house to make special drives for business in lines ordinarily bearing high dealers' profits.

In times of business depression, despite the inherent difficulties and inflexibility of the catalog system in quickly meeting business changes, the more successful mail order houses have been as active as the department stores in picking up large volumes of "distressed" merchandise and offering them to their customers by means of circulars or fliers at very low prices. Following the panic of 1893, men's suits, formerly sold for $10 and $12, were offered by the mail order houses by means of special circulars at $4.98. Similarly, extraordinary values were offered to consumers after the panic of 1907, and again in the business depression of 1921. Thus, during periods of business depression, failure to realize from their regular catalog system has not deterred these concerns from aggressive merchandising intended to build reputation and goodwill for the future.



The mail order concerns in common with department stores and chain stores have been extensive users of leaders to attract trade, both in their catalogs and in their special advertising. Entire lines of goods, such as groceries, were sold for years at no possible prospect of profit but on the theory that customers for these goods would repeat their orders often and would include orders for other goods with their grocery orders. As one mail order merchandise man expressed it, "Get the consumers' grocery business and you will get all the rest." Leaders, however, have been used in many other lines and up to a few years ago nationally advertised goods were frequently used for this purpose. In recent years there has been a notable decline on the part of the leading mail order houses to use nationally advertised goods at prices very much below the prices charged by regular retailers. In making arrangements with the manufacturers of such goods, mail order house buyers usually insist on a difference in resale prices corresponding to the difference in total costs to the consumer, that is, the mail order house may desire to mark an article usually sold for $1 at about 89 cents, the difference of 11 cents being the amount necessary to cover the customer's expenses incidental to ordering from the mail

order house. This difference in price, according to the mail order house buyer, puts the mail order house on a competitive parity with local retail stores.

The mail order houses have also been outstandingly aggressive and daring in trying new methods of business promotion some of which have turned out remarkably well, while others, quite naturally, have failed. As early as the 1880's, C. O. D. offers were made by the mail order houses. Many advertisements during the 1890's offering sewing machines, musical instruments, and other goods began with the expression, in big black letters, "Send no money." The C. O. D. offer followed in small type.

At one time, Sears, Roebuck & Company attempted an extensive premium scheme as a part of its merchandising but this did not succeed. For a number of years prior to the World War, there seemed to have been a distinct trend on the part of the larger mail order houses toward manufacturing their own goods. The principal mail order houses acquired many factories. Since 1920, however, manufacturing operations have not figured very extensively in the merchandising plans of these companies.

The mail order houses have been keen students of all consumer movements. Extensive surveys have been made from time to time of trends in consumer demand, particularly to determine changes in consumer attitudes toward various methods of doing business. Questionnaires, field studies, tests, and experiments with consumer trends have been used almost continuously.

The larger mail order houses have consistently cultivated the goodwill of the public by active participation in matters of public interest. Julius Rosenwald of Sears, Roebuck & Company has been an active factor in education, charities, and the development of the arts. He gave extensive promotion and cooperation to the establishment of the system of county agents, since provided for by the federal Smith-Lever law. In 1923, he



established the Sears, Roebuck & Company Agricultural Foundation, the object of which is to assist in every manner possible in promoting the economic and social interest of the country population in the United States. The contacts of the larger mail order houses with the public throughout recent years have been marked by broad, keen foresight into the welfare of their clientele as well as their own business.

**Problems of the Mail Order House.**—The mail order house method of distribution is beset by as many and as difficult problems as any type of retailing in existence. Its dependence for trade upon advertising and upon orders received through the mails, raises a whole series of problems constantly demanding attention and solution.

**1. High Costs of Catalog Distribution.**—Since the catalog is the salesman for the mail order house, how to secure its best distribution is constantly a problem. In the specialty mail order houses, the problem is how to get inquiries and make sales at a reasonable cost. Obtaining inquiries by mail is almost always an expensive matter and after the inquiry has been made the next problem is to make the sales.

In the general mail order businesses, the distribution of catalogs attained during recent years has been so wide that the number of catalogs issued per season indicates the approach to the saturation point. Sears, Roebuck & Company claims 11,000,000 regular customers and Montgomery Ward & Company claims more than 8,000,000 regular customers. The question before the big mail order houses is how the distribution of their catalogs may be profitably increased. Each catalog of these big houses represents a manufacturing cost and transportation expense that must come close to a dollar a copy. Poor distribution would prove ruinous. How to control the distribution and prevent the waste of sending catalogs to persons who do not order merchandise is an ever-present problem. One method used is to check the orders received from customers throughout the

season, and unless orders to the extent of $5.00 have been received the new catalog for the next season is not sent. This method insures an active live list of catalog customers. Another problem of the mail order house is to find new people to take the places of those dropped. The annual turnover of names on the catalog lists of the large houses is said to average about 20%.

**2. Methods of Increasing the Sales per Catalog.**—Recent reports from executives of the two largest mail order houses indicate that orders received from customers average about $12.50 per season or $25 per year. This means an average of $12.50 per catalog. Analyses made at various times indicate that from 75% to 80% of the total sales volume comes from a relatively small proportion of about 30% of all of the mail order house customers, therefore 70% of the catalogs sent out bring in only from 20% to 25% of the total sales. Obviously, there are large numbers of catalogs issued which do not draw enough trade to pay for themselves.

The problem before the mail order house is how it may increase the sales per catalog either by securing larger average orders or more orders per season. In planning the catalog and other forms of sales promotion, this purpose is constantly kept in mind. One of the methods found helpful to induce prompt and frequent reorders has been to include bargain circulars describing odds and ends of merchandise, not currently cataloged, with outgoing packages. These circulars are said to yield a higher return than any other form of inclosure. A large percentage of orders coming in for special or bargain merchandise include orders for regular merchandise upon which the concern has some opportunity to make its profits.

**3. The Most Profitable Use of Catalog Space.**—Mail order house catalogs, as we have already seen, are expensive. The total advertising expenses of mail order houses, of which



the catalogs are the principal items, are said to range from 8% to 12%, averaging perhaps 10% of sales in the general mail order houses, and even much higher in specialty concerns. The total cost of an issue of catalogs for a large house runs into enormous sums of money and each of the pages making up the book should produce its quota of the total sales of the concern.

If it may be assumed for purposes of illustration that a 1,000-page catalog costing about a dollar to manufacture and mail is distributed to 5,000,000 addresses, then each page costs the concern $5,000. Let us assume again for purposes of illustration that the advertising costs average 10% of sales, then each page costing $5,000 must bring in at least $50,000 in business. In planning the catalog it is the responsibility of the merchandise departments and the advertising department to have merchandise described on each page that will bring in not less than this amount of sales. Determining what merchandise shall be carried, planning the amounts to be purchased in advance, and making arrangements for reorders, writing the copy and securing the illustrations for this merchandise to be described on a page that will secure a volume during the coming season of not less than $50,000, is a problem of real seriousness. Mistakes made in the selection of the merchandise or in its advertising will prove very expensive indeed. In a catalog listing 30,000 to 40,000 items there are certain to be a number of badly selected and badly advertised items, so there must be at least an equal number of successes in order that the average of returns may be maintained or exceeded.

Furthermore, careful regard needs to be taken to the order in which merchandise is presented in the catalog, and in this the convenience and desires of the consumer dominate the plans of the advertising department. The aim is to present the goods in the order and in sequences that may prove most appealing to most customers, and so that the customer may have the benefit of as many suggestions as possible

Probably all general mail order houses as well as all other classes of retail concerns handle some merchandise items that are in themselves unprofitable. How these shall be presented in catalog space so that they may indirectly be most serviceable to the company is another important and difficult problem. Furthermore, there is always the question of how many brands or lines may be adequately necessary to take care of the house's customers. For example, is it necessary to have twelve different price lines of men's hats and twenty different price lines of hosiery? Is it necessary to have forty different fountain pens? The trend of the times is toward the limitation of lines, but too rapid reductions may make the catalog look starved and cause customers to place their orders with competitors.

**4. Consumers' Complaints and Returns of Merchandise.**—A mail order house may obtain a negative measure of its status with consumers by considering the number and trends of complaints received. This measure is usually expressed as the percentage of such communications to the total number of letters received. A mail order house in which complaint letters amounted to 5% of its total mail would be considered operating at a fairly high efficiency. Such a standard would, of course, be out of question in other types of retail institutions in which customers' mail is an unimportant factor. There are department stores in which at least 25% of all letters received from customers, aside from monthly remittances on bills, are complaints. As in the case of department stores, complaint letters in the more successful mail order houses are made the object of very careful study. Every complaint is carefully adjusted and traced to its cause and, where possible, steps are taken to prevent its recurrence.

Returns of merchandise from customers under the terms of the very liberal guarantees of mail order houses constitute a difficult and growing problem. It has been reported that the rate of returns has increased considerably during recent years



and that the trend at present is decidedly upward. How this problem may be met constitutes one of the most pressing questions before the mail order executive. Customers who return merchandise indiscriminately are checked and eliminated from the lists. A customer who has abused the return privilege is simply told either directly or indirectly that his patronage is not desired.

One of the most difficult problems faced by department stores and specialty shops is customers' returns. This subject will be given special consideration in a later chapter. It may perhaps be presumed that as mail order distribution grows and spreads into the fields in which department distribution grows and specialty shops are strongest, the problems of returns among mail order houses will likewise tend to grow even more troublesome. The 5% or 6% of total sales now returned to the large general mail order houses may possibly reach the 8% to 15% returns common in department stores.

**5. The Difficulties of Catalog Merchandising in Fashion Lines.**—Independent retail stores and even chain stores may buy and sell out merchandise in very short periods of time. Goods bought on one day may be entirely disposed of and the floors cleared for quite different goods within a week, or two weeks at most, thereafter in almost any part of the United States, the amount of time between purchase and final sale depending upon the distance the goods must be transported before they arrive in the store. Mail order merchandising, on the other hand, requires a great deal more time. Goods must be selected and purchased at least in sufficient quantities to cover a large part of the total season's requirements, copy must be written, illustrations drawn and approved for the catalog, and the catalog itself must be printed and then distributed before a single sale may be made. The interval between the actual purchase of the goods and first opportunities for prospective customers to purchase probably averages from 2 to 4 months.

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The life of the catalog should be 6 months, so that the merchandising plans must all be completed months in advance of the opportunity to cash in on them.

This long period intervening between the time of preparation and the time of actual sale of the goods makes it very difficult for the mail order house to carry on an extensive business in lines of merchandise in which rapid fashion changes constitute an important factor. Mail order houses must perforce deal in goods in which the elements of style are fairly stable, and make their selections from among the fashions most likely to continue over considerable periods of time. Mail order houses must, therefore, center their merchandising efforts, so far as fashion goods are concerned, on the more conservative and slower moving current fashions. The mail order house can scarcely hope to secure the trade of customers who have the means as well as the desire to indulge in novelties, new styles, and extreme fashions, through the use of regular season catalogs. The alternative is to deal in "middle of the road" merchandise. It is not impossible, however, that mail order methods may be applied on a large scale to the sale of fashion goods by means of monthly fashion catalogs issued during those months in which consumer interest in such lines is most active, as for example, February, March, April, August, September, and October.

A great deal of thought and energy has been devoted to the problem of catalog preparation, particularly with the view of cutting down the amount of time required for its issue. Much progress has been made in the organization of catalog making, such as scheduling the preparation of merchandise plans and of catalog copy on staple goods, so as to permit last-minute additions and changes on new goods and on goods in which fashion change is highly important, as well as to make changes in retail prices made necessary by market trends, competition, and so on.



**6. The Problem of Rising Costs.**—Mail order houses, in common with all other types of business concerns, have encountered steeply rising trends in all operating costs, including labor, rent, advertising, and supplies of all kinds used. The effect of these rising costs has been to increase the relation of operating expenses to sales. There are no published figures showing precisely what mail order house operating expenses amount to, but if one may assume that the market gossip upon this point is correct, then the operating expenses back in 1913 to 1914 ranged from 16% or 17% to 22% of sales. At the present time it is believed that the range is at least 5% higher. Although the various items of expense in a general mail order house must differ very greatly from the same classes of expense items in a department store, it is not improbable that the total expenses run at nearly the same levels. The rising trends in expenses have forced the mail order houses to restudy their methods of operation, to adopt ingenious methods of saving operating expenses, and to make intensive efforts to increase sales volume in order to hold the proportions of overhead as well as operating expenses from rising. The establishment of comprehensive systems of warehouse and branch offices and the decision made in 1929 by the larger mail order houses to pay the postage and freight on all goods shipped to their customers must have added considerable burdens to the already heavy expenses of those mail order houses. The extension of credit and of instalment payment methods on higher-priced goods which has been a growing factor in the methods of operation of the larger mail order house for years has become more and more important as volume of business transacted has increased. In view of these additions to equipment and service, it may perhaps be questioned by an outsider as to whether there are now any advantages in operating expenses of the mail order houses in comparison with other types of retail institutions.

**7. The Growth of Competition.**—In recent years, the mail order method of doing business has encountered increased competition from independent small stores who have learned how to carry on their business more successfully. Local retailers, generally speaking, are no longer so passive nor so heedless in their attitude toward trade leaving their communities and going to the mail order houses. Chain stores have also sprung up all over the country. Some of the chain stores, particularly such concerns as the J. C. Penney Company, have established themselves in the very hearts of the industrial and agricultural towns in which the mail order houses have for years enjoyed large businesses. The development of good roads and almost universal use of automobiles has made it possible for people in every section of the country to make their purchases in cities which, in former times, were much too far away for trading. The increased opportunities of consumers throughout the country to visit first-class attractive retail stores carrying wide ranges of desirable goods has made the mail order prospect very different from what it formerly was.

**8. The Establishment of Chains of Retail Stores.**—Looking back at the developments in the mail order field during the last ten years, it seems almost to have been inevitable that the ambitious aggressive owners and managers of the mail order houses should have made efforts to find new outlets for their capital and energies as the regular mail order business gave indications of approaching a stabilization point. The chain store field offered the most attractive prospects and the rapid, almost feverish, development of the mail order house chains since 1924 is an indication of the ambition of these concerns to become dominant in the retail store field as well as in the mail order field.

The establishment of retail chain stores, however, has raised a host of new problems for mail order house executives such as are peculiar to the chain store field. Serious questions



as to obtaining suitable locations, building and equipping retail stores, finding and training managers and other employees, deciding on what stock shall be carried and how it is to be merchandised, and, at the same time, developing methods of control to insure the success of these new ventures, constitute liabilities that the mail order houses have assumed in forging their way into the new methods of retail distribution. That the progress of these chains has apparently been highly successful is undoubtedly in part due to the splendid general public goodwill enjoyed by these concerns, a goodwill that has served to secure and hold consumer trade during the experimental period in which the chain store system was finding itself.

The earliest retail stores in the mail order houses were obviously intended to serve as outlets for season's odds and ends and merchandise that did not sell well through the catalogs. They were intended to relieve the mail order house inventories at the least loss. Some of these stores were known as "outlet stores." They were, of course, located at or near the mail order plants or warehouses. Probably the earliest of these was conducted by Montgomery Ward & Company in Chicago. Another was conducted by the National Cloak & Suit Company in New York City many years before there was any thought of running a chain of stores.

During 1924 and 1925, however, there was a veritable rush of the mail order houses into chain store systems. It was during this period that Montgomery Ward & Company, Sears, Roebuck & Company, The Larkin Company, and the National Cloak & Suit Company, as well as some other smaller mail order houses, began to establish their chain store systems and, as these systems developed, plans were formulated for larger and larger chain store organizations intended to cover the entire country.

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**Competition.**—Small independent retailers, particularly in the smaller towns, were greatly agitated by the progress made

by the mail order houses in the period from 1905 down to 1916. Several efforts were made by associations of such retailers to secure some control or restriction over the growth of the mail order business. Since the mail order business was interstate business, such efforts were directed toward obtaining national legislation. Aside from changes in the parcel post system, elsewhere referred to, these efforts resulted in failure.

Local efforts to curb mail order competition took the direction of organizing consumers against making purchases from mail order houses. Consumers were urged to trade at home and to support local institutions. Although much effort was expended on these promotions, there is very little to indicate that they had any material effect on the distribution of consumers' purchases.

Following the failures to get the consuming public to patronize their own home stores rather than distant mail order houses, retailers very generally settled down to study and devise plans for meeting this competition of the mail order houses in terms of prices and services. It is quite certain that these efforts did more to stabilize the competition than the earlier efforts to control the mail order houses by laws or by attempts to arouse public antipathy. An examination of the sales figures of the principal mail order houses seems to indicate, however, that despite all efforts made by local retailers and their associations, the trend of mail order house sales has been steadily upward. That the clamor against mail order house competition has subsided in most parts of the country may be due either to the fact that independent retailers have learned how to hold their own and get their share of the total increasing retail trade, or that a newer and more dangerous competition has appeared which has taken attention from the mail order evil, as it was formerly called.

The growth of the chain stores, particularly of the J. C. Penney, W. T. Grant, and Neisner types, has probably given the general mail order houses more serious, vital competition



than any competition ever growing out of efforts of individuals or of associations of independent retailers. The rapid growth of these chain stores must have been a factor in the consideration which led to the establishment of the mail order house chain stores.

The mail order houses have almost continuously been keen competitors among themselves. Both of the best-known concerns have largely sought the same classes of trade, the catalogs of both concerns might very generally be found in the same homes. An effort was made during the years from 1926 to 1928 to consolidate Sears, Roebuck & Company and Montgomery Ward & Company. Rumors of such consolidation were rife but finally passed over. Probably it was a good thing for both houses that they were kept separate. There are many business students that doubt that the combined volume of the two could have been kept up to their separate results.

The competition of the mail order houses has now entered a new phase through the establishment of their chain stores. This competition has broadened so that it has become a factor not only in small towns but large cities as well, not only with independent stores but also with chain stores and department stores. That the competition of mail order houses has so far affected large city stores but little, points to the fact that the mail order houses have generally carried classes of merchandise not generally handled by the higher-priced department store trade. The fact that retail trade as a whole has been growing very rapidly has made it possible for all classes of retailers in spite of competition to enjoy marked increases. The real test, it may be assumed, will come when, and if, the retail business as a whole should, through declines in national income and in standards of living, suffer a set-back.

**Trends of the Mail Order Business.**—Mail order houses of all classes, so far as is known, enjoyed a fairly constant upward trend in sales volume previous to the World War, and

again in the two years following the war down to the latter part of 1920. Most mail order concerns suffered severe reverses not only in sales volume but profits as well during the business depression of 1920 and 1921. Many passed out of existence. Others were forced to modify their methods of doing business. The large concerns whose names are familiar to consumers all over the country have generally recovered all of the ground lost during the 1920-1921 business depression, and the

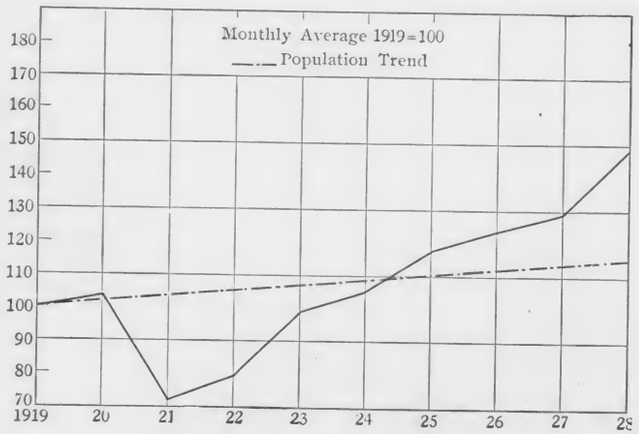


Figure 48. Mail Order Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

two largest organizations now have greater sales volumes than ever before. It does not appear, however, that the mail order trade as a whole has generally been so successful in recovering and maintaining its upward trend as have these two giant concerns in the field. Certainly the proportions of mail order business conducted by department stores and other specialty shops has declined. Perhaps a part of it has been replaced by telephone orders, an important development. There do not appear to be as many specialty mail order firms at present as there were in



pre-war times. It seems likely that the mail order business as a whole has not even held its own as compared with the years before and up to 1920. (See Figure 48.)

The conditions favoring the development of the pure mail order business during the twenty or thirty years before the war were greatly changed after 1920. The isolation of country homes and villages was largely broken down by the development of good roads and the use of automobiles. There is scarcely a home in the United States now that is more than two hours distant by automobile and good road to good general or department stores, competing in variety, quality, and price with the mail order houses.

Retail stores formerly suffering from mail order competition have greatly improved their service, merchandise stocks and methods of doing business. Live, aggressive retailers, even in the smaller towns, have ceased to fear the mail order houses and have begun to work constructively in the face of mail order competition to build up their business. The chain stores have spread rapidly and do not fear mail order competition at all. There was and there still is an important place for mail order business in this country, just as it is carried on in England, France, or Germany, where economic and social conditions are far more mature and stable than in this country, but for the future, it seems that the mail order business has reached and perhaps passed the point at which the rising curve has begun to flatten out.

The chain store systems established by the big mail order houses have reopened the prospects of growth for those particular concerns.

In conclusion, it seems safe to state that for this country, the mail order business, conducted on purely mail order lines, has probably passed its peak, and, while the volume of mail order house business will probably always continue to be an important part of the total retail volume, it does not seem likely that it will become more important as a competitive factor.

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# CHAPTER VIII

## THE CHAIN STORE

The chain store is a retail organization composed of two or more retail stores owned by and operated under one management. This definition marks the technical distinction between chains and independent unit stores, but the characteristic features of chain store operation do not appear until several stores are included in a group.

Chain store management has developed methods which are only available to systems in which there are many stores. In the grocery field, practical chain store men assert that the full possibilities of chain store methods cannot be secured without at least fifty retail stores. The best results, it has been stated, may not be obtained until the chain has reached 200 or more units. What the number of units may be that are necessary to effective chain store administration in other lines depends upon the sales volume for individual lines of goods through those outlets. There must be a sufficient number of outlets to provide a buying power that will make it possible to secure the best advantages on the goods handled.

It may also be indicated that there is probably some point in the size of chain store organizations beyond which additional units yield no additional advantages and may, in fact, yield diminishing returns. Indeed, additional units beyond the number necessary to secure the best results may tend only to increase expenses and to cut net profits. Beyond certain quantities, there are no additional advantages to be gained from quantity purchases. The cost of supervision grows. The difficulties of control multiply. The system becomes less flexible. Some of the largest chain store organizations have met this problem by

dividing up their concerns into divisions, virtually separate chain systems. Among such are the Great Atlantic & Pacific Tea Company, the F. W. Woolworth Company, and the Safeway Company. Each division is presumably kept at a size permitting most efficient operation.

**Wide Variety of Chain Store Systems.**—Chain operation has now been applied to practically every type of retail institution, and to the sale of almost every kind of merchandise. In addition to the application of the chain idea in the ordinary retail fields, there are chain organizations operating hotels, law offices, doctors' and dentists' offices, beauty shops, correspondence schools, newspapers, undertakers' establishments, insurance agencies of various kinds, banks, public accounting concerns, investment houses, advertising agencies, junk dealers, second-hand stores, barber shops, bakeries, shoe repair shops, and so on. The chain principle of operation is indeed at the bottom of some of our most important organizations, such as city school systems, playgrounds, fire stations, hospitals, and libraries. Religious societies are essentially chains. In fact, some of the well-known churches are the largest chain organizations in the world.

**The Development of Modern Chain Stores.**—Attention was called in the historical chapters to the ancient origins of the chain idea in business. Many of the merchant adventurers of England and other European countries during the Middle Ages, had agencies or branches both for the purchase and the sale of goods in many widely scattered places. Their sales places were, undoubtedly, in most cases wholesale establishments, and their customers were other wholesalers and retailers, but in these organizations there was a well-developed germ of chain systems. The various companies of merchant adventurers were literally cooperative chain organizations operated under royal charters.

The Fuggers of Augsburg, Germany, an organization originating in the early part of the fifteenth century and continuing for several hundreds of years following, was engaged in the manufacture of fabrics, in mining, banking, international trade, and established and controlled numerous branch houses for the sale of their products. While this organization dealt with large concerns, there were in it important elements of the chain store system.



The Mitsui organization of Japan originated about the the same time as the House of Fugger and is still in existence as the most powerful and wealthiest business concern in Japan, carrying on activities similar in scope to those of the House of Fugger. The Mitsui organization likewise embodied chain principles.

The Hudson Bay Company, without doubt the oldest chain organization in North America, was established in 1670. Its trading posts during the eighteenth and nineteenth centuries were scattered all over the Canadian Northwest. In recent years, the Hudson Bay Company has extended its activities in retail trading. It now operates about a dozen modern high-class department stores in the leading cities of western Canada. It conducts 5 wholesale establishments and has over 200 fur trading posts throughout the Northwest, of which 18 are within the Arctic circle. In addition to its wholesale and retail stores and trading posts, it also operates more than 50 steam and motor vessels on Canadian waters and is one of the largest real estate owners in the Dominion of Canada.

**Nineteenth Century Beginners of Chain Store Systems.**—There were chain store organizations of a kind in the United States in the early and middle nineteenth century. These organizations have received but scant attention, and received little or no publicity while they were in existence. For business reasons, central organizations tying the individual units together were generally kept secret. These chains consisted for the most part of partnerships of retailing and wholesaling and

importing concerns. Thus, wholesalers in New York and other eastern cities acquired ownership and control over retail stores in the various parts of the country and ran them through local managers who were usually partners with the wholesaler in the ownership of the retail businesses. It is possible that if these arrangements had been published they might have hurt the trade of the parent wholesale concerns with their other customers. Both A. T. Stewart and Samuel Lord, the founder of Lord & Taylor's, held several such partnerships in retail stores scattered throughout the country. A. T. Stewart also had branch stores for a time in Boston, Philadelphia, and Chicago. During the late 1860's, John Wanamaker had branch stores in Pittsburgh, Washington, Richmond, and other cities.

Carson, Pirie, Scott & Company, first established as a retail store in 1854, rapidly grew into a chain. Six other retail stores were established. Each store was managed by a partner of the organization. The headquarters of this group, throughout the late 1850's and 1860's was in Amboy, Illinois. In 1864, a wholesale house was established in Chicago, and later a number of retail stores in the city of Chicago. In the 1870's, the concern gradually disposed of these retail outlets and concentrated its efforts on its wholesale business and on its retail store in Chicago.

H. B. Claflin & Co., a large dry goods wholesale house in New York, was another concern, which during the 1860's and 1870's began to acquire retail dry goods stores throughout the country. H. B. Claflin, the founder, died in 1885. In the years following, John Claflin, his son, continued to acquire control of additional stores. In 1890, the H. B. Claflin Co. was formed to own and manage these retail properties, largely, it afterwards appeared, as a means of holding their trade for the national wholesale house. Later, another group of stores was gathered into a company known as the Associated Merchants Co. which took over the H. B. Claflin Co. In 1909, the United Dry Goods



Co. was created to serve as a holding company for all Claflin enterprises.

The Claflin group thus held together longer than most of the other wholesaler-owned groups that came into existence in the 1860's and 1870's. Eventually, however, the Claflin group found it impossible to continue successfully. After the panic of 1907, business difficulties multiplied for the wholesale house and in 1914 the organization went into bankruptcy.

Most of the retail stores of the Claflin group were successful institutions, but the rule of the buyers was so strong and their prejudices against using the New York wholesale house so powerful that even overhead ownership could not save the business of the wholesale house. Chain store executive technique had not been established sufficiently to check departmental and individual performances, to prevent waste, and to secure results. Each store, in spite of its central ownership, continued to be an individually operated concern. It might not have been possible to save the Claflin wholesale house from extinction. Many other dry goods wholesalers had disappeared long before, but the immediate reason for this failure was the lack of cooperation of its units. The individualistic traits of the buyers wrecked the Claflin business.

The stores of the Claflin group were divided into two chains; the Associated Dry Goods Corporation made up, originally, of 7 stores, and Mercantile Stores, Inc., of 22 stores. The latter organization now has about 40 stores. Samuel Reyburn, formerly in the banking business in Little Rock, Arkansas, was made the head of the Associated Dry Goods Corporation, and Alexander New, an attorney in Kansas City, was made the head of Mercantile Stores, Inc. Both of these organizations have continued down to the present and have grown increasingly powerful and successful.

These earlier chains were apparently chains in ownership only. Methods of supervision and control had not then been developed sufficiently to make central operation possible. The

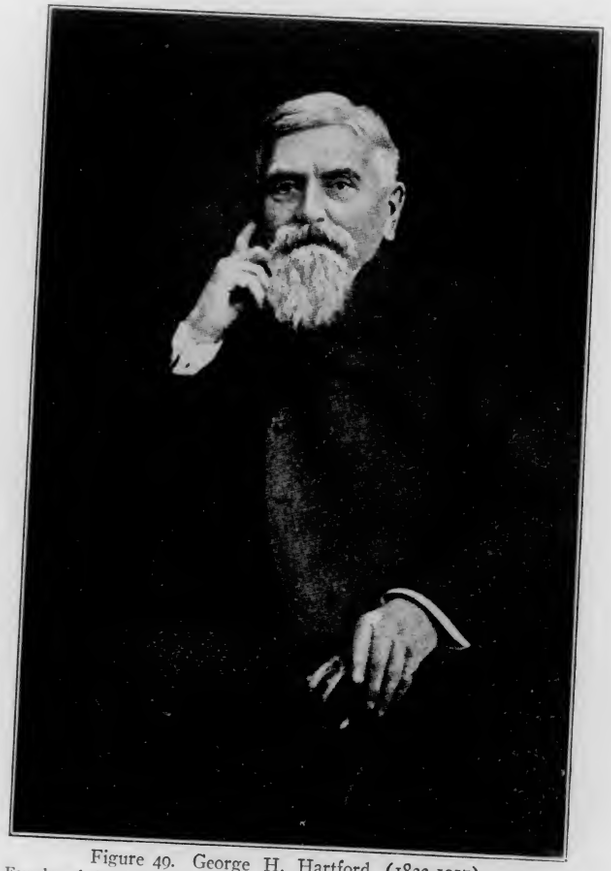

Figure 49. George H. Hartford (1833-1917)
Founder of the oldest of present existing chain store systems in the United States. The Great Atlantic and Pacific Tea Co. The first store was established in New York City in 1859. This company is now the largest chain store system in the world.





interest of a local resident partner, with occasional conferences, suggestions, advice, and directions from the central headquarters was counted upon to secure the results desired in each store. Chain store operation did not begin to be an important factor until accounting methods had been developed and applied to purposes of control and until the corporation, as a method of ownership, had superseded partnerships.

Modern chain store organizations began in the grocery field. The Great Atlantic & Pacific Tea Company began in 1858 as a side line to a leather business conducted by George H. Hartford in New York. This is, so far as is known, the oldest chain store organization now in existence in the United States. The sale of tea and coffee outgrew the sale of the leather so that the leather business was discontinued in 1864. By 1865, this organization had grown to 25 retail stores scattered throughout New York and Brooklyn. Later, peddler wagon routes were established in the West and more stores followed. By 1910, there were 372 stores and by 1915 the number had risen to 1,726 with sales amounting to $44,000,000. By 1929, the number of stores had increased to more than 17,000, with annual sales reputed to be in excess of $750,000,000 a year, the largest retail business in the world.

The next chain organization to come into existence was also a tea and coffee concern; the Jones Bros. Tea Company, established in 1872. This organization was taken over by the Grand Union Company in 1928 and is now operated under that concern. This concern operates grocery stores, meat markets, and a chain of about 1,300 house-to-house wagon routes.

The F. W. Woolworth Company, the oldest of the five and ten cent stores, was established in Lancaster, Pennsylvania, in 1879. There had been earlier efforts in the five and ten cent store business, but the Woolworth business succeeded. On its fiftieth anniversary in 1929, the Woolworth organization consisted of 2,100 stores located in 1,500 cities in five different

Figure 50. Frank W. Woolworth (1852-1919)

Founder of the F. W. Woolworth Co., chain of 5 and 10 cent stores. The first store was established in Lancaster, Pa., in 1879. At the close of 1928 there were more than 1,700 stores in the chain spread over the United States, Canada, England, and other countries. The sales volume amounted to nearly $300,000,000 per year, entirely in goods sold at 5 and 10 cents.





countries of the world. Its annual sales for 1928 amounted to $272,700,000.

A number of chain store systems that have since become very successful and very well-known were established in the ten-year period between 1880 and 1890. J. G. McCrory started in Scottsdale, Pennsylvania, in 1882, and from a humble beginning with a capital of less than $2,000 has built up a chain of more than 220 stores selling goods at prices from 5 cents up to $1, and with total annual sales in 1928 in excess of $40,000,000. One of McCrory's early employees was S. S. Kresge, who later became a partner and continued with McCrory down to 1899, when he separated and established the beginnings of the S. S. Kresge Company, another highly successful chain dealing in 5 cents to $1 merchandise, with more than 500 stores and annual sales in 1928 in excess of $147,000,000.

B. H. Kroger of the Kroger Grocery & Baking Company, next in size to the Great Atlantic & Pacific Tea Company, established his first little store in Cincinnati in 1862. Kroger's characteristic Red Front stores have expanded in number so that at the end of 1928 there were in the chain more than 5,500 stores with annual sales exceeding $200,000,000.

Another well-known chain, James Butler, Inc., handling groceries and other foods, was also established in 1882. James Butler, who had but recently arrived from Ireland, left the hotel business in which he was employed and established his first store in New York City. At the end of 1928, there were in this chain over 1,100 stores.

Three chain organizations came into existence in Philadelphia and eastern Pennsylvania during the same decade, Child's Grocery Company in 1883; the Acme Tea Company in 1887; and the George N. Dunlap Company in 1888. All three of these chains, together with some others, have more recently been absorbed in an amalgamation of general grocers known as

INTENTIONAL SECOND EXPOSURE

Figure 50. Frank W. Woolworth (1852-1919)

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American Stores Company, now numbering over 2,500 retail outlets.

A well-known shoe chain came into existence in 1885—the Hanan Shoe Stores.

In 1887, H. C. Bohack started his first grocery store in Brooklyn. At the end of 1928, Bohack's chain consisted of 460 grocery stores, 208 meat markets, 5 gasoline filling stations and automobile accessory stores, a meat packing plant, and a modern bakery. Sales for the preceding year amounted to approximately $26,000,000.

The J. W. Crooks Stores Company, made up of more than 150 grocery and provision stores with headquarters in Baltimore, was first established in 1886.

During the following decade, from 1890 down to 1900, new chain store organizations came into existence, including the Ginter Company, a chain of grocery stores with headquarters in Boston, established in 1895. Another Boston chain of grocery stores, O'Keefe's, Inc., was established in 1897, and the John T. Connor Co. in 1899. All three of these organizations, with some others, were absorbed in a giant chain, First National Stores, Inc., in 1917. This organization has more than 2,000 grocery and food stores throughout New England. Its annual sales exceed $65,000,000.

The Jewel Tea Company, one of the most powerful house-to-house grocery canvassing organizations now in existence, was first established in 1899. At the end of 1928, it was running somewhat more than 1,100 automobiles and selling about $15,000,000 per year.

S. H. Kress & Company, 5 cents to 25 cents stores, was established in Memphis, Tenn., in 1896. At the close of 1928, it was operating close to 200 stores with sales of more than $60,000,000 per year. Although one of the smaller chains, S. H. Kress & Company appears to be one of the best managed companies. It has had a remarkably successful business record.

Since 1900, great numbers of chain store organizations

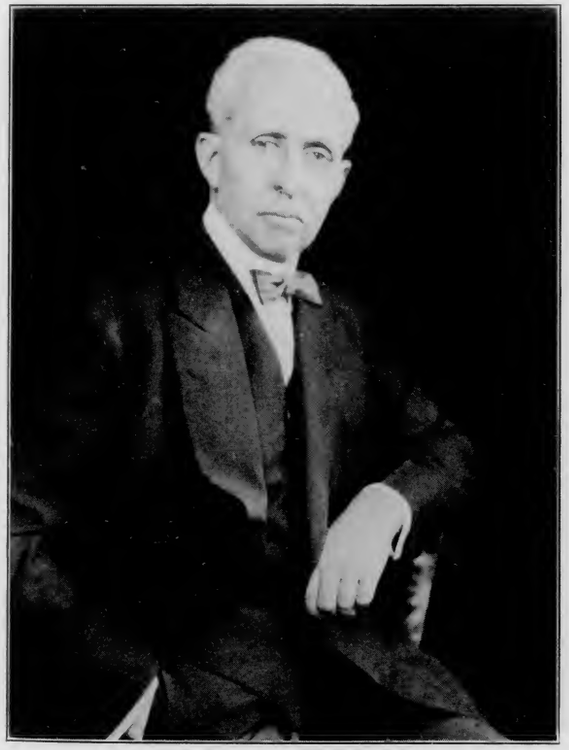

Figure 51. James C. Penney

Founder of the J. C. Penney Co., a chain store system dealing in dry goods, apparel, footwear, and allied lines of goods. The first store was established in Kemmerer, Wyoming, in 1902.

have come into existence. With every passing year more chains have appeared. Among the best-known concerns that were established soon after the opening of the century are included; the United Cigar Stores Company in 1901; the J. C. Penney Company in 1902; the United Drug Company in 1902; and the W. T. Grant Company in 1906, all of which have been very successful.

Excepting the F. W. Woolworth Company, it may be stated in a general way that the grocery chains, including the tea and coffee retail distributors, were the first in the field, followed closely by the 5 and 10 cent stores, and after 1900 by a general spread into a great variety of lines.

**The Number of Chain Stores.**—Though new chain store organizations are coming into existence at a rapid rate every year, the total number of chains is apparently not now growing so rapidly as heretofore, due largely to the still stronger trend toward mergers and amalgamation of chains already in existence. Authoritative information as to the number of chain stores must await the 1930 census.

In the trial census of distribution in 11 cities, taken during 1927 for the year 1926, totals were secured both as to number of chain stores and volume of business in relation to total stores and total volume of business in these 11 stores. Table 9, page 225, is interesting, since it shows what proportion of the total retail trade in each of the 11 cities was obtained by chains, and Table 10, page 226, presents the same information on the total retail business of the 11 cities by the important lines of merchandise.

It may be noted that the number of chain stores made up about 15% of the entire number of retail stores, but in sales ranged from 6.3% in Fargo up to 37.1% of total retail sales in Chicago, with an average for the entire group of 11 cities of 28.7%.

By lines of business, chain store sales ranged from 1.7% in toys and games up to 73.5% of total sales in gasoline and oil. Out of a total of 47 kinds of retail business, chain stores fell below 10% of the total retail sales in 12 lines, ranging from 10% to 20% in 14 lines, and from 20% to 30% in 9 kinds of business. In the remaining 12 kinds of business, chain store sales exceeded 30% of the total retail business carried on in these 11 cities. It may be presumed, in view of other information available concerning the activities of chain stores, that these figures may be taken as fairly representative for large city conditions, but that in smaller towns chain store development has not reached such high levels. It



TABLE 9. CHAIN STORE BUSINESS IN 11 CITIES
(According to Trial Census of 1927.)

| Cities | Total No. Retail Stores | Total Retail Sales | % Chain Stores to Total | % Chain Sales to Total |
|---|---|---|---|---|
| Atlanta, Ga. | 3,749 | $ 177,782,800 | 27.0 | 30.7 |
| Baltimore, Md. | 11,127 | 369,027,300 | 11.8 | 22.4 |
| Chicago, Ill. | 41,224 | 1,981,140,400 | 15.6 | 37.1 |
| Denver, Colo. | 3,899 | 155,672,800 | 14.3 | 19.5 |
| Fargo, N. D. | 392 | 19,652,600 | 6.6 | 6.3 |
| Kansas City, Mo. | 5,373 | 300,310,700 | 17.4 | 17.9 |
| Providence, R. I. | 4,877 | 192,272,500 | 11.6 | 20.5 |
| San Francisco, Calif. | 14,000 | 655,350,900 | 14.2 | 22.6 |
| Seattle, Wash. | 5,808 | 222,842,100 | 16.0 | 19.5 |
| Springfield, Ill. | 1,151 | 45,512,900 | 13.4 | 18.0 |
| Syracuse, N. Y. | 2,328 | 104,544,100 | 10.7 | 14.8 |
| Total | 93,928 | $4,224,109,100 | 15.1 | 28.7 |

seems probable that for the country as a whole chain store sales may not have reached the high proportions indicated in the trial census. It is possible, however, that by 1929, chain store sales may have amounted to as much as 20% of the total retail trade of the country.

**The Extent of Chain Store Development.**—The estimate of the number of chains and of the number of stores within

TABLE 10. CHAIN STORE SALES IN 11 CITIES CLASSIFIED BY KIND OF BUSINESS

(From the Trial Census of 1927.)

| Kind of Business | No. of Retail Establishments | Total Retail Sales | % Chain Stores to Total | % Chain Sales to Total |
|---|---|---|---|---|
| Art and antique | 508 | $ 11,052,600 | 4.5 | 6.0 |
| Automobile | 1,018 | 295,530,500 | 25.1 | 31.3 |
| Automobile accessory | 2,077 | 61,812,400 | 8.2 | 19.3 |
| Bakery | 2,666 | 63,963,900 | 9.3 | 11.4 |
| Boot and shoe | 2,030 | 91,546,500 | 27.3 | 51.8 |
| Building material | 976 | 151,985,000 | 17.1 | 15.1 |
| Cigar and tobacco | 3,280 | 50,218,800 | 11.6 | 35.5 |
| Clothing and furnishing, men's | 2,834 | 152,488,400 | 12.3 | 19.0 |
| Clothing, women's | 1,672 | 144,028,300 | 14.7 | 15.6 |
| Coal, wood, and ice | 1,303 | 89,859,100 | 11.5 | 28.2 |
| Confectionery, ice cream, etc. | 6,677 | 64,814,300 | 5.8 | 27.7 |
| Custom tailors | 1,602 | 46,135,800 | 1.9 | 11.8 |
| Dairy and poultry product | 577 | 70,971,100 | 10.9 | 44.0 |
| Department | 125 | 616,489,700 | 13.6 | 33.0 |
| Drug | 4,397 | 155,892,200 | 11.8 | 29.9 |
| Dry goods and notions | 3,292 | 89,835,700 | 5.7 | 8.2 |
| Electrical goods | 750 | 37,975,100 | 9.5 | 29.3 |
| Florist | 1,016 | 22,402,900 | 6.5 | 13.4 |
| Fruit and vegetables | 2,706 | 36,187,500 | 15.7 | 9.5 |
| Fur and fur clothing | 354 | 21,594,000 | 7.9 | 11.2 |
| Furniture and house furnishings | 2,844 | 205,357,100 | 13.6 | 32.8 |
| Gasoline and oil | 4,135 | 137,352,800 | 46.4 | 73.5 |
| General | 75 | 4,502,700 | 14.7 | 29.7 |
| Grocery and delicatessen | 20,886 | 488,509,000 | 21.0 | 41.3 |
| Hardware | 2,472 | 81,798,200 | 14.6 | 9.2 |
| Hat and cap, men's and boys' | 255 | 7,506,200 | 33.7 | 51.7 |
| Hay, grain, and feed | 201 | 12,734,300 | 6.5 | 6.6 |
| Jewelry | 1,370 | 56,863,200 | 5.8 | 17.2 |
| Junk | 188 | 4,508,800 | 1.1 | 0.2 |
| Meat, poultry, and fish | 5,712 | 169,912,100 | 8.6 | 14.2 |
| Millinery and art, flowers | 1,107 | 22,136,800 | 20.4 | 30.9 |
| Motorcycle and bicycle | 118 | 1,612,700 | 3.4 | 4.5 |
| Musical | 555 | 36,465,800 | 13.7 | 27.2 |
| Office equipment | 439 | 42,176,600 | 8.7 | 13.4 |
| Optical goods | 252 | 8,430,000 | 8.7 | 16.7 |
| Paint, oil, varnish, and glass | 577 | 17,305,200 | 5.2 | 15.7 |
| Photographic supply and camera | 107 | 2,157,400 | 9.3 | 6.6 |
| Plumbing and heating supplies | 719 | 33,614,900 | 9.9 | 9.1 |
| Radio | 371 | 12,206,800 | 11.3 | 20.6 |
| Restaurants | 8,350 | 269,187,300 | 12.2 | 33.6 |
| Sporting goods | 151 | 5,047,600 | 15.2 | 22.9 |
| Stationery, books, magazines | 1,061 | 37,584,700 | 15.8 | 15.0 |
| Toy and game | 81 | 1,370,000 | 2.5 | 1.7 |
| Trunks and leather goods | 320 | 9,788,700 | 9.4 | 22.1 |
| Typewriters and calculating machines | 169 | 14,305,000 | 3.6 | 6.0 |
| Variety | 365 | 56,979,400 | 55.1 | 70.7 |
| Unclassified | 1,188 | 208,943,500 | 8.8 | 5.5 |
| Total | 93,928 | $4,224,100,100 | 15.1 | 28.7 |



these chains, made by W. J. Baxter, director of the Chain Store Research Bureau, for the year 1927, is the most comprehensive of any of the efforts recently made to describe the extent of the present chain store business. (See Table 11, page 228.) According to this estimate, there were in all lines approximately 4,000 chains with over 101,000 stores. Of the 4,000 chains, 860, with a total of 64,000 stores, or nearly two-thirds of all chain stores in existence, were in groceries. The 5 and 10 cents to $1 stores came second, with 786 chains and 8,100 stores. Shoe stores came third, with 596 chains and 6,462 outlets. The next group of chain store systems included drug stores, with 347 chains and 3,155 stores. Men's clothing and furnishings, with 230 chains and 2,180 stores, women's apparel, with 215 chains and 2,036 stores, dry goods and department stores with 189 chains and 2,489 stores, and restaurants, tea rooms, and so on, with 166 chains and 2,009 retail outlets, came next in order.

In the great variety of other types in which chain stores are to be found, there were none in which the number of chains exceeded 52. However, cigar and tobacco chains, which numbered but 30, included 2,850 stores, and jewelry and optical chains, numbering 35, included 1,172 stores.

**Present Trends in Chain Store Development.**—The best and most reliable sources of information on retail trends is the Federal Reserve Index of Retail Trade. It presents a monthly index of changes in sales for a number of department stores and mail order houses as well as chain stores.

By reference to Table 12, page 229, it will be seen that the department stores reporting to the Federal Reserve system showed a gain of 38% from 1919 down to the end of 1928, and that in the same period of time the four largest mail order houses which report their figures made a gain of 47%. In the meantime, grocery chains gained 366%, 5 and 10 cent stores gained 183%, candy chains 136%, drug chains 159%, cigar

TABLE 11. ESTIMATED NUMBER OF CHAIN STORE SYSTEMS IN THE UNITED STATES

(Prepared by Chain Store Research Bureau.)

| | No. of Chains | No. of Stores |
|---|---|---|
| Automobile supply shops | 3 | 76 |
| Bakeries | 12 | 523 |
| Barber shops | 4 | 36 |
| Candy shops | 33 | 731 |
| Cigar stores | 30 | 2,850 |
| Clothing (men's and women's) | 29 | 531 |
| Clothing stores (women's and children's ready-to-wear) | 215 | 2,036 |
| Clothing stores (men's and boys' haberdashery stores, etc.) | 230 | 2,180 |
| Drug stores | 347 | 3,155 |
| Dry goods stores and department stores | 189 | 2,439 |
| 5 and 10 cent to $1 | 786 | 8,100 |
| Floral and seed stores | 7 | 49 |
| Furniture and house furnishings | 18 | 179 |
| Gas and electrical appliances | 11 | 176 |
| General and company stores | 42 | 478 |
| Gift and art shops | 3 | 25 |
| Groceries | 860 | 64,000 |
| Hardware and sporting goods stores | 52 | 511 |
| Hat stores (men's) | 24 | 465 |
| Jewelry and optical stores | 35 | 1,172 |
| Meat | 52 | 598 |
| Millinery stores | 46 | 598 |
| Music stores (pianos and other musical instruments) | 46 | 435 |
| Office equipment stores | 15 | 1,003 |
| Radio and electrical goods stores | 12 | 69 |
| Restaurants, tea rooms, etc. | 166 | 2,009 |
| Shoe stores | 596 | 6,462 |
| Shoe-repairing stores | 3 | 35 |
| Stationery, books, etc. | 17 | 356 |
| Wallpaper stores | 5 | 72 |
| Total | 3,893 | 101,536 |

chains gained 54% up to the end of 1927 but dropped to a gain of only 48% in 1928, shoe chains 64%, and music chains gained 10% up to 1927. In the same period of time, the four great mail order houses gained 47%.

Chain store rate of growth greatly exceeded the rate of growth for both department stores and mail order houses except in the case of music chains, which have apparently had rather a difficult time keeping up an even growth since 1919.



Chain stores are showing a much greater gain in retail sales volume than any other type of retail institution at the present time. Since 1914, it appears that the retail volume passing through chains has considerably more than quadrupled, while department store and mail order house sales have only doubled. Unlike the department store and mail order house sales trends, the largest part of the chain store gain has been made since 1920.

It may be noted in passing that the gains in chain store volumes are, in some lines, due to increases in numbers of

TABLE 12. RECENT TRENDS IN RETAIL SALES

(As reported by the Federal Reserve Bulletin, 1919–1928.)

| | (100 = 1919 Sales) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
| Department stores | 100 | 120 | 112 | 113 | 125 | 127 | 132 | 136 | 136 | 138 |
| Mail order houses | 100 | 103 | 72 | 78 | 99 | 105 | 118 | 123 | 129 | 147 |
| Chain stores: | | | | | | | | | | |
| Grocery | 100 | 146 | 130 | 151 | 188 | 214 | 264 | 317 | 390 | 466 |
| 5 and 10 cent | 100 | 120 | 124 | 140 | 165 | 185 | 209 | 229 | 251 | 283 |
| Wearing apparel | 100 | 144 | 164 | 178 | 230 | 272 | 330 | 414 | 525 | 625 |
| Drug | 100 | 121 | 123 | 127 | 144 | 150 | 169 | 196 | 221 | 250 |
| Cigar | 100 | 133 | 132 | 128 | 135 | 138 | 142 | 154 | 154 | 148 |
| Shoe | 100 | 120 | 113 | 114 | 123 | 133 | 139 | 148 | 150 | 164 |
| Music | 100 | 109 | 86 | 101 | 113 | 101 | 122 | 128 | 110 | * |
| Candy | 100 | 138 | 142 | 147 | 176 | 190 | 199 | 215 | 225 | 270 |

* Not available.

stores, rather than to increases in sales per store. The sales increases noted in Table 10 for department stores and mail order houses are, with the exception of recent figures for mail order houses, for identical stores over the entire period.

Chain stores differ in respect to their trends of unit store sales. In Tables 13-16, it will be seen that in certain chains, such as the 5 and 10 cent and department store organizations, the average sales per store have increased considerably. In the grocery chains, however, the average sales per unit have actually declined.

TABLE 13. PROGRESS OF INDIVIDUAL CHAIN STORES—5 AND 10 CENT STORES

| | S. S. KRESGE COMPANY | | | F. W. WOOLWORTH CO. | | | McCRORY STORES CORPORATION | | | S. H. KRESS CO. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) |
| 1909 | 42 | $ 5,116 | $121 | | | | | | | | | |
| 1910 | 51 | 6,508 | 127 | | | | | | | | | |
| 1911 | 64 | 7,923 | 123 | | | | 69 | $ 3,902 | $ 56 | | | |
| 1912 | 85 | 10,325 | 121 | 631 | $ 60,557 | $ 95 | 92 | 4,764 | 51 | | | |
| 1913 | 101 | 13,258 | 131 | 684 | 66,228 | 96 | 105 | 5,395 | 50 | 114 | $10,776 | $ 94 |
| 1914 | 118 | 16,097 | 136 | 737 | 69,619 | 94 | 113 | 4,929 | 45 | 119 | 11,897 | 100 |
| 1915 | 140 | 20,943 | 149 | 805 | 75,995 | 94 | 115 | 5,613 | 47 | 123 | 12,429 | 101 |
| 1916 | 157 | 26,396 | 168 | 920 | 87,089 | 94 | 137 | 6,787 | 50 | 130 | 15,059 | 115 |
| 1917 | 164 | 30,090 | 183 | 1000 | 98,102 | 98 | 143 | 7,831 | 54 | 144 | 17,633 | 122 |
| 1918 | 170 | 36,309 | 213 | 1039 | 107,174 | 103 | 147 | 9,007 | 65 | 144 | 21,160 | 146 |
| 1919 | 176 | 42,668 | 242 | 1081 | 119,496 | 110 | 148 | 11,487 | 77 | 145 | 25,244 | 174 |
| 1920 | 189 | 51,245 | 271 | 1111 | 140,918 | 126 | 156 | 14,199 | 91 | 145 | 28,973 | 199 |
| 1921 | 199 | 55,859 | 280 | 1137 | 147,654 | 129 | 159 | 14,406 | 90 | 142 | 28,908 | 203 |
| 1922 | 212 | 65,191 | 307 | 1176 | 167,319 | 141 | 161 | 17,123 | 106 | 145 | 30,646 | 212 |
| 1923 | 232 | 81,843 | 352 | 1260 | 193,447 | 153 | 167 | 21,367 | 127 | 152 | 34,005 | 223 |
| 1924 | 256 | 90,096 | 352 | 1356 | 215,501 | 158 | 176 | 25,223 | 143 | 161 | 40,259 | 250 |
| 1925 | 304 | 105,965 | 348 | 1423 | 239,032 | 167 | 183 | 29,593 | 161 | 166 | 45,063 | 276 |
| 1926 | 367 | 119,218 | 324 | 1480 | 253,645 | 171 | 199 | 33,592 | 168 | 169 | 51,869 | 306 |
| 1927 | 435 | 133,847 | 307 | 1589 | 272,747 | 171 | 220 | 39,336 | 178 | 183 | 58,059 | 317 |
| 1928 | 506 | 147,363 | 291 | 1725 | 287,318 | 166 | 225 | 41,105 | 182 | 193 | 65,054 | 337 |



TABLE 14. PROGRESS OF INDIVIDUAL CHAIN STORES—DEPARTMENT STORES

| | J. C. PENNEY COMPANY | | | W. T. GRANT CO. | | | F. & W. GRAND | | | NEISNER BROTHERS, INC. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) | No. of Stores | Sales (000 omitted) | Avg. Sales per Store (000 omitted) |
| 1902 | 1 | $ 28 | $ 28 | | | | | | | | | |
| 1903 | 1 | 63 | 63 | | | | | | | | | |
| 1904 | 2 | 94 | 47 | | | | | | | | | |
| 1905 | 2 | 97 | 48 | | | | | | | | | |
| 1906 | 2 | 127 | 63 | | | | | | | | | |
| 1907 | 2 | 166 | 83 | 1 | $ 99 | $ 99 | | | | | | |
| 1908 | 4 | 218 | 54 | 2 | 169 | 84 | | | | | | |
| 1909 | 6 | 310 | 51 | 4 | 398 | 99 | | | | | | |
| 1910 | 14 | 662 | 47 | 6 | 752 | 125 | | | | | | |
| 1911 | 22 | 1,183 | 54 | 9 | 1,083 | 120 | | | | | | |
| 1912 | 34 | 2,051 | 60 | 12 | 1,361 | 113 | | | | | | |
| 1913 | 48 | 2,636 | 54 | 16 | 2,000 | 125 | | | | | | |
| 1914 | 71 | 3,560 | 50 | 20 | 2,565 | 128 | | | | | | |
| 1915 | 86 | 4,825 | 56 | 23 | 3,061 | 133 | | | | | | |
| 1916 | 127 | 8,415 | 66 | 25 | 3,659 | 146 | | | | | | |
| 1917 | 177 | 14,880 | 83 | 30 | 4,510 | 150 | 18 | $ 1,628 | $ 90 | | | |
| 1918 | 197 | 21,336 | 108 | 32 | 6,029 | 185 | 19 | 2,328 | 122 | | | |
| 1919 | 197 | 28,778 | 146 | 33 | 7,941 | 240 | 19 | 2,642 | 139 | | | |
| 1920 | 297 | 42,822 | 144 | 38 | 10,192 | 267 | 19 | 2,941 | 154 | | | |
| 1921 | 312 | 46,641 | 149 | 45 | 12,728 | 282 | 19 | 3,657 | 192 | | | |
| 1922 | 371 | 49,035 | 132 | 54 | 15,382 | 284 | 22 | 4,321 | 196 | | | |
| 1923 | 475 | 62,188 | 130 | 60 | 20,625 | 343 | 23 | 5,416 | 235 | 8 | $ 1,695 | $212 |
| 1924 | 571 | 74,261 | 130 | 73 | 25,316 | 346 | 28 | 6,576 | 234 | 11 | 1,907 | 173 |
| 1925 | 676 | 91,062 | 134 | 77 | 30,411 | 394 | 37 | 8,536 | 230 | 13 | 2,695 | 207 |
| 1926 | 745 | 115,683 | 155 | 109 | 36,074 | 330 | 41 | 10,500 | 256 | 17 | 4,497 | 264 |
| 1927 | 892 | 151,959 | 170 | 158 | 43,743 | 276 | 55 | 12,882 | 234 | 22 | 6,477 | 294 |
| 1928 | 1026 | 176,698 | 172 | 221 | 55,690 | 252 | 81 | 17,259 | 211 | 35 | 10,292 | 294 |

TABLE 15. PROGRESS OF INDIVIDUAL CHAIN STORES—GROCERY STORES

| | Kroger Grocery and Baking Co. | | | National Tea Company | | | Safeway Stores, Inc. | | | H. C. Bohack & Co., Inc. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Stores | Sales | Avg. Sales per Store | No. of Stores | Sales | Avg. Sales per Store | No. of Stores | Sales | Avg. Sales per Store | No. of Stores | Sales | Avg. Sales per Store |
| | | (000 omitted) | (000 omitted) | | (000 omitted) | (000 omitted) | | (000 omitted) | (000 omitted) | | (000 omitted) | (000 omitted) |
| 1917 | 440 | $ 23,320 | $53 | | | | | | | | | |
| 1918 | 554 | 25,851 | 45 | | | | | | | | | |
| 1919 | 712 | 34,003 | 48 | | | | | | | | | |
| 1920 | 903 | 50,705 | 56 | | | | | | | | | |
| 1921 | 903 | 44,851 | 45 | 261 | $16,283 | $62 | 191 | $ 12,468 | $65 | 225 | $15,317 | $68 |
| 1922 | 1413 | 53,753 | 38 | 295 | 20,632 | 69 | 300 | 19,947 | 64 | 254 | 16,073 | 65 |
| 1923 | 1800 | 74,339 | 41 | 514 | 31,292 | 60 | 439 | 28,532 | 65 | 324 | 18,703 | 57 |
| 1924 | 2107 | 90,124 | 41 | 598 | 39,058 | 65 | 580 | 38,091 | 66 | 352 | 19,395 | 55 |
| 1925 | 2856 | 116,235 | 40 | 761 | 47,450 | 62 | 780 | 55,828 | 71 | 391 | 21,159 | 54 |
| 1926 | 3309 | 140,069 | 43 | 840 | 53,657 | 63 | 916 | 76,836 | 84 | 417 | 24,733 | 59 |
| 1927 | 3704 | 161,261 | 42 | 1237 | 58,801 | 47 | 1979 | 103,393 | 52 | 466 | 26,168 | 56 |
| 1928 | 5558 | 207,372 | 37 | 1600 | 85,881 | 53 | | | | | | |



At the present writing, 1929, it is believed that the number of chain grocery stores may be in excess of 75,000, or more than 20% of the total estimated number of grocery stores within the country. Chain grocery store sales are probably in excess of a third of all grocery sales through all channels.

TABLE 16. PROGRESS OF INDIVIDUAL CHAIN STORES—DRUG STORES

| | Owl Drug Company | | | Walgreen Company | | |
|---|---|---|---|---|---|---|
| | No. of Stores | Sales | Avg. Sales per Store | No. of Stores | Sales | Avg. Sales per Store |
| | | (000 omitted) | (000 omitted) | | (000 omitted) | (000 omitted) |
| 1906 | 8 | $ 856 | $107 | | | |
| 1907 | | | | | | |
| 1908 | 10 | 1,426 | 142 | | | |
| 1909 | | | | | | |
| 1910 | 15 | 2,450 | 163 | | | |
| 1911 | | | | | | |
| 1912 | 18 | 3,499 | 194 | | | |
| 1913 | | | | | | |
| 1914 | 20 | 4,437 | 222 | | | |
| 1915 | | | | | | |
| 1916 | 25 | 4,885 | 195 | 9 | $ 270 | $ 30 |
| 1917 | | | | | | |
| 1918 | 30 | 7,104 | 236 | 14 | 600 | 42 |
| 1919 | 32 | 7,663 | 239 | | | |
| 1920 | 38 | 10,022 | 263 | 23 | 1,550 | 67 |
| 1921 | 43 | 10,708 | 249 | | | |
| 1922 | 44 | 11,025 | 250 | 29 | 2,473 | 85 |
| 1923 | 47 | 11,925 | 251 | | | |
| 1924 | 87 | 16,317 | 187 | 48 | 5,586 | 115 |
| 1925 | | | | 67 | 9,319 | 138 |
| 1926 | 95 | 17,069 | 179 | 96 | 13,404 | 140 |
| 1927 | | | | 135 | 20,889 | 154 |
| 1928 | 104 | 18,085 | 173 | 230 | 31,389 | 136 |

Chain grocery trade in various large cities throughout the country has been estimated to amount to 40%, 50%, 60%, and even as high as 75% of the total grocery trade in those communities. There are marked differences in the growth of the chain grocery business in different American cities. Some communities are apparently much more susceptible to chain development than others. In general, chain store progress has been greatest in the larger cities and their suburbs. Chain store development is now definitely toward smaller and smaller

cities, but the proportions of the total grocery trade enjoyed by chain stores in the smaller communities is undoubtedly still very much lower than in the larger cities.

There has likewise been a rapid development during recent years among chain stores handling meats, fruits, and vegetables. Many grocery chains have added meats, fruits, and vegetables to their previous lines. New chains have been established. These fields of retail distribution, however, are still

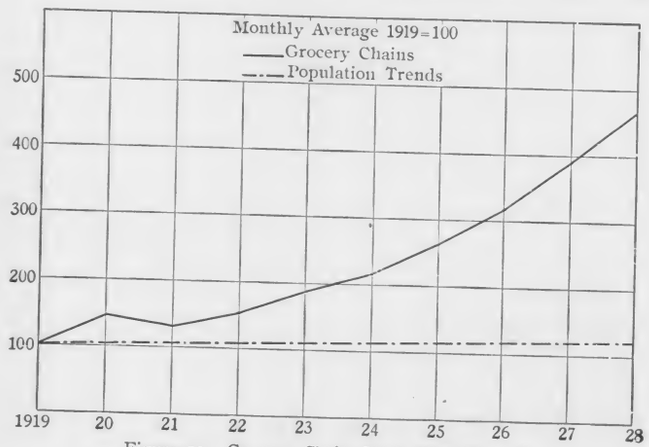


Figure 52. Grocery Chain Store Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

largely in the hands of small independent stores. There is a strong belief current that the trend of both chains and of independent stores is away from small shops toward food department stores or markets, selling all kinds of foods under the same roof.

There has been an exceedingly rapid development both in number of chains and in number of retail stores handling 5 and 10 cent goods, variety goods, and limited lines of dry goods and merchandise such as sold in department stores. Baxter's estimates of the number of such stores is believed to be too conservative. Other estimates set the number of stores in these groups as high as 14,000 units, and estimate that the total volume transacted, as of 1928, was not less than $2,500,000,000.



It is especially interesting to note that there is a general progressive trend within these chain systems and others that are rapidly coming into existence, toward handling fashion

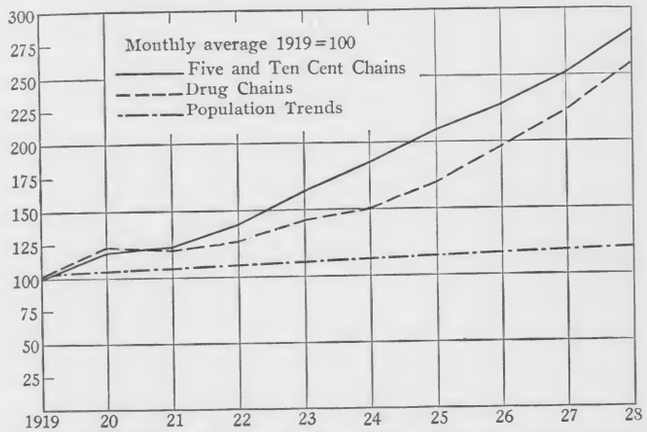


Figure 53. Five and Ten Cent Chain and Drug Chain Store Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

goods, formerly believed to be too difficult for chain operation. Judging from the success of some of the leaders in this line, it may be presumed that a marked growth is yet to occur in this field. Within the lines of goods, such as handled in the 5 and 10 cent to $1 stores, it may be safely assumed that chain stores now have upwards of 75% of the total volume in this country.

In view of the large number of shoe chains and retail store units in those chains, together with the statistics obtained from

the distribution census taken in 11 cities in 1927, it is probable that nearly 30% of all shoe stores are chain stores, and that more than 50% of all sales of shoes are made through shoe chains.

Chains of drug stores are likewise growing very rapidly. At the close of 1928, there were more than 500 chains with over 4,000 retail stores throughout the United States. These

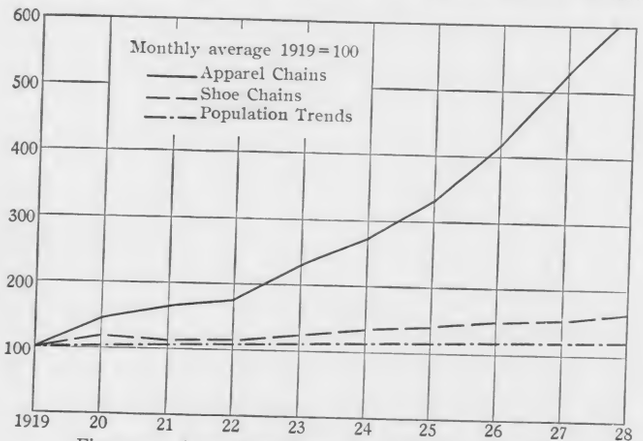


Figure 54. Apparel and Shoe Chain Store Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

chain systems, it was estimated, made up less than 10% of the total number of drug stores throughout the country but enjoyed a volume of $250,000,000, constituting at least 20% of the total retail sales made by drug stores.

The chain store business in the men's apparel and furnishings field has had a widespread growth through the development of many small chains rather than such large outstanding institutions as found in the grocery, 5 and 10 cent, and drug fields. At the close of 1928, it was estimated that there were over 320 chains with more than 3,750 stores, making up



about 12% or 13% of the total number of retail stores in these lines, and having a sales volume of $547,000,000 or about 15% of the estimated total sales of all retail stores in this field. The largest and most powerful chains in this field include Richman Bros., of Cleveland, with 34 stores and sales amounting to about $20,000,000; Browning, King & Company, with 32 stores and a sales volume estimated at $15,000,000; and Fash-

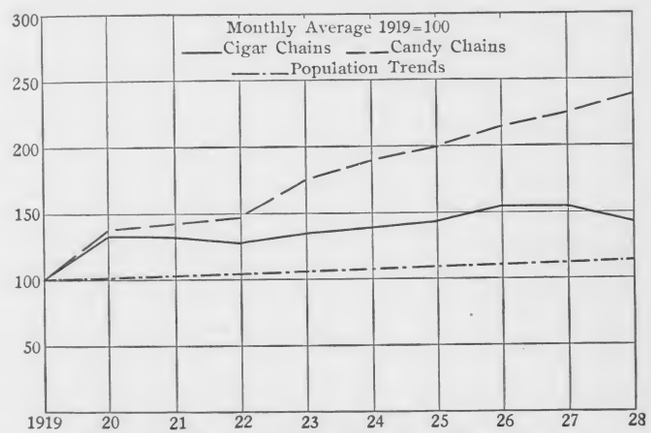


Figure 55. Cigar and Candy Chain Store Sales Trends

From statistics compiled by the Federal Reserve Board. (*Survey of Current Business*, February, 1929.)

ion Park Associates with 24 stores and sales estimated at $15,000,000. Other chains in this field with 20 or more stores include Trivers of New York, 48 stores; Lubow Bros. of New York, 37 stores; Lubow American Woolen Clothing Stores, also of New York, 30 stores; Wolf Bros. of Kansas City, 48 stores; Wohlmuth Company of Baltimore, 60 stores; Royal Tailors of Chicago, 20 stores; P. & Q. shops, 35 stores; the Kibler Company of Cleveland, 26 shops, the Leuthold stores of St. Paul, 31 stores.

**Classification of Chain Stores by Ownership.**—In addition to the great variety of chain stores considered from the standpoint of lines of merchandise handled, there are also a number of kinds of chain stores according to their ownership and the specific purposes to be served. An enumeration and brief description of chains classified by ownership follows:

1. **Retail Chain Stores.**—Under this title are included all chain store organizations that are privately owned, either by individuals, by partnerships or by corporations, and that are without affiliations or domination from other industries or interests. The sole purpose of the retail chain is to make a success in the retail business. Any other business interest of such concerns, if existent at all, is subsidiary to the objects of retailing. This is the conventional form of chain store organization generally referred to in the discussions in this book and elsewhere.

2. **Wholesalers' Chain Stores.**—This class includes chain store organizations owned and operated by or for the interests of wholesale concerns. Such chains have come into existence in various ways. In many cases, wholesalers have been forced to assume the ownership of retail stores to save themselves from losses due to the impending failures of the retail store owners. There are undoubtedly many retail stores virtually owned by wholesale houses and which are supported in the hope that the nominal owners may be able to regain a grip on their businesses and make them profitable. It is also probable that many wholesalers who own retail stores of this character would be glad to get rid of them if a purchaser could be found willing to take them over at a price covering the costs to the wholesaler.

The rapid development of chain store systems and consequent growth of purchasing from manufacturers directly, on the one hand, and the growth of group or cooperative buying by independent stores, on the other, has cut down the potential markets of wholesalers enormously. With the continued growth



of both chain stores and of group buying of independents, in prospect the future outlook for the wholesaler as an independent wholesaler serving independent retail stores, is not bright. To insure themselves of a probable future business, there has developed a decided trend among wholesalers in many lines to go directly into the chain store business themselves.

In some cases, these efforts of wholesalers to provide assured retail outlets for themselves have taken the form of contract relationships with independent retailers who, for various considerations, agree to tie themselves to the wholesaler. This method calls for no additional capital on the part of the wholesaler, but does involve the expense of establishing operating plans to keep the retailers tied in this system. The methods of so-called voluntary chains organized by wholesalers will be described in a later chapter. Paralleling the development of wholesaler-retailer voluntary groups, such as just described, there is also a rapid growth of chain systems actually owned and operated by wholesalers.

A wholesaler who undertakes to conduct a chain of owned retail stores usually faces serious problems with his regular independent retail customers. As the owner of a chain, the wholesaler becomes either an actual or a potential competitor of his customers, who in turn are likely to transfer their business to other wholesalers. Therefore, when a wholesaler establishes a chain, he faces the contingency of losing his regular business and of having to become a chain store organization outright. The establishment of contractual arrangements with retailers does not apparently arouse such resentment among customers, and the danger of losing their trade is not so imminent as in the case of actual acquisition by ownership of retail stores.

Some wholesalers have apparently succeeded in holding their regular independent store customers even after acquiring retail stores of their own. This has been possible, however, through the fact that such wholesalers have been able to sup-

ply merchandise and services of such character not easily obtained by retail customers elsewhere or by means of agreement made with their customers to limit their chain store activities to localities in which there can be no competition with those customers. Another argument effectively used by wholesalers owning retail stores is that by such ownership, competition between these stores owned by the wholesaler and independent store customers may be confined to reasonable bounds. An independent retailer may in some cases prefer the competition of a wholesaler-owned store to the competition of a vigorous aggressive retail chain store organization out to get all the retail trade possible.

The adaptations now being made by wholesalers to meet the changing conditions of retail trade constitute some of the outstanding features in present-day business. In addition to forming contractual associations with retailers and establishing big chain store systems of their own, the wholesalers themselves are combining into gigantic nation-wide chain organizations. In addition to the advantages of organization and the greater ease enjoyed by such large organizations in securing capital, there are other advantages urged for national wholesaler chains, such as the possibilities of supplying exclusive national outlets for manufacturer's products and the possibilities of using national advertising to promote the sales of products of their own. A large wholesaler group with advantageously located wholesale units, together with retail stores, either owned or controlled by contract, makes a splendid distributing machine for manufactured products. The possibility of effecting a sale to such an organization may mean national distribution at one stroke. The manufacturer is saved all of the trouble and expense of maintaining a sales organization traveling in all parts of the country. The wholesaler chain, on the other hand, in urging this advantage, is in position to demand and to receive the lowest prices that it may be possible for the manufacturers to make.



**3. Manufacturers' Chain Stores.**—There are a number of manufacturers' chain store systems. Among the lines of goods represented in such systems one may find several brands of shoes, confectionery, hats, gasoline, sewing machines, automobiles, gloves, sporting goods, phonographs, office furniture, bakery goods, tobacco products, and so on. Some of these goods could probably be marketed just as readily through regular retail stores. Some of them are marketed through manufacturers' chains because of dissatisfaction with the conditions of marketing found in the regular channels. Manufacturers have, in some instances, established their own chains as a result of unsuccessful efforts to meet the problems of price maintenance, of securing proper outlets, and adequate stocks and service at the points of retail sale.

In most cases manufacturers who have established chain store systems have done so to insure the provision of the expert demonstrating and sales ability and other services necessary to the sale of their products. For example, it is not probable that sewing machines could have been sold nearly so successfully and so widely through regular retail stores as they have been sold through the special agencies and manufacturers' retail stores. Sewing machine selling has called for a certain amount of technical ability as well as concentration of effort which ordinary stores have not been prepared to give. As a consequence, the big sewing machine companies have generally sold their product through their own stores or branches. The Singer Sewing Machine Company has over 1,800 such branches in the United States, and approximately 6,000 altogether around the world.

It is not probable that many manufacturers would attempt to conduct their own retail distributive systems if not forced to do so by a condition such as already mentioned. The retail business is very different from the manufacturing business. Only rarely are the qualities of management found highly suc-

cessful in manufacturing equally successful in running retail establishments or, for that matter, vice versa. Furthermore, a manufacturer going into a chain store system finds that it takes a great deal of additional capital. As a matter of fact, the financing of the marketing of a product usually requires two or three times as much capital as its manufacturing. The management of a chain involves grave problems. There are constantly a great many possibilities of waste and of loss. The actual net profits are in most retail businesses quite narrow. In spite of these drawbacks, some of the manufacturers' chains are the best examples of present-day efficient chain store management. It seems altogether probable that many more such organizations will be established in the future.

**4. Department Store Chains.**—There are a number of organizations consisting of several department stores which, in methods of operation, differ sufficiently from the conventional, regular chain store systems to merit separate classification. Among these may be mentioned, the Associated Dry Goods Corporation, the Mercantile Stores, Inc., the National Department Stores, the May Company, Gimbel Bros., Marshall Field & Company, City Stores, Inc., Kresge Department Stores, R. H. Macy & Company, the Hahn Department Stores, and several others. These great organizations are centrally owned and centrally controlled from a financial standpoint, but differ from the regular retail chain in that most of the operations such as merchandising, advertising, display, and sales promotion, are carried on individually and independently by each store. Each has its complete organization of executives, including buyers, advertising and display men, and each of these executives is held responsible for the results of his department independently of what is accomplished by the group. Central action, when it does take place, in merchandising, sales promotion, or any allied activities, is usually the result of cooperation among the executives of the various stores rather than the result of central executive decisions made and carried out as in a regular chain store system.



Beginnings have been made in the direction of standardizing operations and central control in some of these department store chains. Experiments are being conducted at the present time by several of these chains in central buying. E. A. Filene, president of Wm. Filene Sons Company of Boston, has, for a number of years, urged the advantage and the inevitability of chain methods of operation in department stores or, as he has expressed it, of "chains of department stores made up of chains of departments within the department stores."

Department stores find it very difficult to make the departure from individual, independent methods of operation of departments under the direction of buyers or department managers to central control. The problems of meeting local consumer demand, of devising systems of stock control suited to the varied lines handled by department stores, and of supervision of the large staffs of people employed in the many departments of department stores, are so great that there is much hesitancy in trying to make the change. Department store executives who have grown up in systems of individual department operation and control and who have made their successes through these methods find it especially difficult to change to pure chain store methods of operation. It is certain, however, that such changes are under way in the department store chains, but they are made very gradually and are made only under the urgency of great necessities. E. A. Filene's description of the future department store is likely to materialize, but in the meantime revolutions must take place both in present department store operating methods and in the viewpoints of present department store executives.

**5. Mail Order House Chains.**—In a preceding chapter, the development of the mail order business and its methods of operation have been traced. Attention may again be called to

the fact that the larger mail order houses have rapidly become great chain store systems. The limitations of the mail order method in the retail business and the ambitions of the owners of these large mail order houses to secure continued growth have undoubtedly been the underlying causes leading to the organization of chain stores. Among the mail order houses with chain store systems are Sears, Roebuck & Company, Montgomery Ward & Company, the Larkin Company, and the National Bellas Hess Company. These are the four largest mail order houses in the country. Some of the smaller mail order concerns have likewise undertaken the establishment of chain stores.

Retail stores started by the mail order concerns include both large and small stores. Both Sears, Roebuck & Company and Montgomery Ward & Company have established large department stores in the larger cities, and both have established smaller stores dealing in more limited lines of goods in smaller communities. The growth of these chain stores owned by the mail order houses is so varied and so rapid that any discussion attempted here will be certain to be out of date even before this book reaches the hands of the reader. It may be presumed from such facts as are known as to the plans of these concerns that, within a few years, they expect to take their place among the largest chain store organizations in the country.

**6. Leased Department Chains.**—One of the remarkable fields of recent chain store growth has been the rapid spread of systems of leased departments within retail stores. Leased departments are, of course, not recent developments, but chains of leased departments seem to be quite modern. A great number of leased departments are managed by individuals, but there is also a considerable percentage conducted on the chain basis.

Leased department chains have reached the greatest development in millinery. The opinion has been expressed in a report on "Department Leasing in Retail Stores," that in



cities of from 35,000 population and up, fully one-half of the millinery sold is distributed through leased departments conducted by chains which are known in the millinery trade as "syndicates." Beauty parlors and barber shops come second, shoe departments third, followed by candy departments, optical departments, pattern departments, restaurants, and luncheonettes. Chain or syndicate operation of leased departments possesses most of the advantages of chain store operation including large buying power, standardization on a few price lines, unit control of merchandise, and so on. The independent retail merchant with a small millinery department is likely to have difficulty if competing with the syndicates on values offered to the public. It is the belief of some observers that chain or syndicate development of leased departments has nearly reached its peak in this country; the trend toward mergers of entire stores into chains or voluntary groups now occupies the center of the stage. Whether chain store systems will sublet departments to other chains to the extent that similar subletting has been carried on by independent retailers, cannot at present be foreseen.

**7. Retailers' Cooperative Chains.**—In a later chapter on cooperation among retailers, a detailed description will be made of the various methods of organization and of operation of retailers' cooperative activities. In the true cooperative organization, each individual unit voluntarily merges its operations with those of the group. Various grades and degrees of cooperation may exist. When completely organized, a cooperative group of retail stores becomes in every sense a chain store organization, differing in no respect from any other chain store organization except that its ownership rests in the individual stores making up the group.

In a regular private chain store system organized as a corporation, the ownership is usually in the hands of a few people or in the hands of investors. The power of control coming

from such ownership is highly centralized. In the cooperatively owned chain system the power coming from ownership flows to a central headquarters from the individual store units. A chain store system in which each unit store manager is a stock holder in the company, in a sense, approximates a cooperative chain. The true cooperative, however, goes a step further and gives to each unit store owner an equality of footing with all other members.

A great many organizations of retailers' cooperatives have recently come into existence. It has been estimated that there are more than 60,000 retail grocers in such groups.

Several thousand druggists are members of cooperative mutual drug companies, as they are called in the drug trade. There is active cooperation among many hardware dealers, stationers, confectioners, bakers, and there are very few live dry goods and apparel stores, independently owned, which are not members of some sort of a cooperative group. The chief aim in the development of this type of organization has been to combat chain store competition. A great many other values, however, have been gained by such groups.

**8. Consumers' Cooperative Chains.**—Whenever consumers' cooperative chain store organizations reach the point where several store units owned by consumers are combined for purposes of maintaining a wholesale organization, it virtually becomes a chain store system, but in this case owned by the customers of the retail stores. A description and discussion of the consumers' cooperative movement will be found in another chapter.

**Elements of Chain Store Progress: 1. Convenience of Location.**—Nearly all chain store organizations place the highest emphasis on proper location. The chain store owner attempts by every scientific means to place his store at locations most convenient for the public. The department store consolidates several lines of merchandise under one roof. The chain



store specializes in its lines and decentralizes the location of its departments. Instead of asking the people to come to it, it goes to the people.

Chains are often ready and willing to pay more for the best locations than independent store owners, but if they do, it may be presumed that this is only because they are able to get more out of them than do independent store owners. Students of agriculture have long noticed that in the long run the best farm lands gradually get into the hands of the best farmers, those who know how to get the most out of them and are, therefore, willing to pay the highest prices for such land. There is undoubtedly a similar principle in retail locations. The best locations tend to become the property of the most successful merchants. It takes more than the average managing ability to get the most out of a 100% location.

**2. Suitable Building and Store.**—In the provision of a satisfactory trading place, chains have probably introduced few new ideas, but as a rule they carry out the well-recognized requirements most thoroughly. The typical successful chain store unit is bright, clean, sanitary, well-lighted, well-ventilated, orderly, and attractive. It is provided with easy entrances, and appropriate fixtures. One of the chief criticisms of most of the older-fashioned individual stores was their failure to give proper attention to these details.

**3. Expert Management.**—Expert, executive management has been recognized as an imperative need of chain store organizations since their beginning. It is also possible for a chain store organization, particularly a large concern, to afford the employment of the services of the best trained and most experienced executives available. Consequently, in their advertising, accounting, personnel work, merchandising, and other functions, chain stores draw upon the best ability that money can command. Nearly all chain organizations use carefully devised methods of selection and training of new employees. What-

## A District Supervisor's or Inspector's

Store No.
Name of Manager.
City.
Date.
Name of Inspector.
What time does store open?
When did manager and assistants arrive this morning?
Is store front kept clean?
Marble and tile washed?
Window glass clean?
Sidewalk swept?
Are girls' toilets and washrooms in good condition?
Is men's toilet kept clean?
Is rear yard free from rubbish?
Is furnace room kept clean?
Are store lights in good condition?
All lights bright?
Globes clean?
Are panels trimmed neatly?
Are wall-cases and counter cases neatly trimmed?
Glass clean?
Is floor in store free from rubbish and clean?

### Stockroom

Is stockroom floor clean?
Is merchandise unpacked same day as received?
Are stock bins kept clean?
Are lines of merchandise properly departmentized in bins?
Is there an undue amount of broken or rewrapped packages?
Do checked invoices go down to office daily?
Attach separate list of overstocks.
Condition of candy room?

### Understocks

Are understocks behind counters large?
Neatly kept?
Give list of counters where understocks are poor.

### Windows

Are windows neatly trimmed?
Neatly signed?
Properly priced?
Give list of merchandise display in each window.

### Store in General

Is merchandise properly priced?
Are 100% items given proper display?
Are all lines properly and neatly displayed?
Are unseasonable lines of any kind on display?
Are signs throughout store neat?
Are lines of merchandise properly departmentized?
Attach separate list of items store is out of.

### Personnel

Are salesgirls treated with courtesy and consideration?
Do you observe dissatisfaction among the girls?
Do all salesgirls belong to their Efficiency Club?
Is Efficiency Club properly managed and promoted?
Are assistant managers up to standard?
Does manager allow assistants to read office correspondence concerning merchandise?
When has manager or assistant last lectured girls?

### Office

Does store balance contain full amount of cash?
Are general office requests for information answered promptly?
Are season sheets kept up-to-date?
Are all check invoices sent to office promptly?
Is list book up-to-date?
Is copy of order file clear of copies for merchandise already received?
Are shippers shipping this store promptly?
Attach separate list of copies of orders long overdue.

### Candy

Do items consist of 100% numbers in season?
Is understock absolutely neat and clean?
Are signs in good condition?
Are items properly priced?
Do candy girls make good appearance?
Are proper items used for throw-out displays?
Attach separate list of items counter is out of.

### Sheet Music and Music Rolls

Is the counter out of 100% numbers in sheets or rolls?
Condition of sheet music on counter?
Condition of piano?
Attach separate list of sheet music and rolls not selling.
Is understock kept in good condition?
Are feature number signs up-to-date?
Is present girl regular girl of this department?
Is regular girl competent for this department?

### Record Department

Attach separate list of numbers this department is out of.
Appearance of understock?
Are numbers arranged in consecutive numerical order on counter?
Condition of victrola?
Are feature signs up-to-date?
Is present girl the regular girl of this department?
Is regular girl proper girl for this department?
Is stock of needles complete?
General Remarks:

Figure 56. Details Considered in Chain Store Management—Used by Neisner



## Form of Individual Store Report

### Fountain Department
*Cafeteria*

Date.
Possible Points, 385.
Points Scored.

*Luncheonette*

Date.
Possible Points, 230.
Points Scored.

*Root Beer Dept.*

Date.
Possible Points, 240.
Points Scored.

15 Appearance of department attractive and clean?
10 Equipment in good condition?
5 Hood clean with proper signs?
5 Counter back bar—mirrors clean?
5 Steamer and broiler in good condition?
5 Gas burners properly regulated?
10 Frankfurters, hamburg of good quality?
10 Coffee urn and all nickel-plated fixtures polished daily?
5 Urn crock sterilized daily, faucets not leaking?
10 Grease traps and all sewer outlets clean? Drain pipe solvent used weekly?
5 Rolls and bread of proper size and quality, fresh daily?
5 Ice boxes clean? No odor should be noticeable.
5 Silverware, chinaware, glassware of regulation size and quality, not chipped or cracked. Clean?
5 Steins washed out daily, three times, with soap and water.
5 Is floor scrubbed out with soap and hot water daily?
5 Is syrup tank cleaned? Every two months?
5 Water tank cleaned semi-weekly?
10 Carbonator oiled, greased, protected from water?
5 Current and gas tank shut off every night?
5 Reserve supplies marked code cost price? Ample supply on hand?
10 Stockroom clean?
15 Is kitchen clean—well arranged—shelves—floor clean?
Equipment in good condition?
5 Garbage cans clean and good appearance?
Scrubbed with lye occasionally?
5 Used dishes and steins removed promptly?
5 Sufficient signs clean and appropriate?
5 Is root beer properly mixed? 6–7¼ oz. of liquid?
10 Are soda dispensers neat, clean, good personal appearance, and in clean uniform?
5 Properly trained?
10 Customers served promptly with politeness and courtesy?
5 Is money collected and registered when service is completed?
5 Coffee properly brewed with boiling water and not too weak?
2 or 2½ gallons of water to a pound of coffee about right.
5 Cream for coffee used for coffee undiluted? Not less than 18% butter fat.
5 Coffee bag removed 20 minutes after coffee has been made?
15 Insect roach powder used twice a week?

### Luncheonette

15 Syrup percolator in good condition? Cleaned every 2 months?
15 Crushed fruit and syrup jars clean and in good condition?
10 Draft arms—syrup pumps—properly regulated?
25 Quality of food and drinks up to Neisner's standards?
15 Plumbing in good condition? Faucets not leaking?
50 Salads, sandwiches—hot and cold dishes all prepared and displayed?
Proper portions?
25 Syrups and crushed fruit of proper consistency?
50 Soda water cooling boxes—iced daily and cleaned weekly?
10 Steam table clean? Water changed daily?
15 Ice cream properly frozen?

### Cafeteria

25 Special lunches well advertised?
25 Menus unsoiled? Well placed? Prices O.K.?
15 Variety of baked goods, cooked meats of high quality? Well displayed?
25 Is refrigerator system well taken care of?
10 Ice boxes clean?
50 Exhaust fans—motors—machinery—in good condition? Oiled and greased every Thursday?
50 Ranges, hoods—bakery, ovens cleaned daily?
50 Ceiling, walls, electric fixtures clean?
10 Dressing room clean?
25 Cooks—bakers—kitchen help—in clean uniform, good personal appearance?
100 Is department being operated with minimum shrinkage and making average gross and net per cent?
Department in charge?
Any prospective managers in training?
Have recommended any change?
General qualifications of Department managers?
Remarks:

Bros., Inc., 5 cents to $1 Stores. (From *Chain Store Age*, June, 1929.)

ever there may be of value in specialization and division of labor as applied to retailing, may be found in one form or another in chain store organizations.

**4. Limited Services.**—Many of the most successful chains, particularly among those first established, have forged ahead on a basis of limited service, such as cash and carry instead of credit and delivery. The savings in expenses from the elimination of charge accounts and delivery services have generally been converted into lower retail prices. These savings have proved more attractive to multitudes of consumers than the services so eliminated, so that much trade has been drawn from the stores operated on the charge account and delivery basis to the cash and carry stores.

The cash and carry policy, followed by so many chain stores, is apparently not so much of an innovation as a result of retail evolution. In none of the older countries has consumer credit been so liberally extended as in the United States. In most of the European countries, the percentage of cash business to total retail business is much higher than in the United States. The wide use of charge accounts and the extension of long terms of credit seem to be characteristic of primitive or frontier conditions and of newer countries only.

In the early retail development in the United States, long credits became customary in all parts of the country. For several decades, long credits were very necessary. Long-term credits running for six months or even a year are still customary in certain sections, although, for a number of years there has been a strong trend toward more frequent settlements, as for example, on a monthly or semi-monthly basis.

In the competition of retailers for extension of their trade during the 1870's, 1880's, and 1890's, consumers were offered more and more liberal credit privileges, with the result that the credit business grew to important proportions and there also developed extensive abuses, including large losses due to bad



EXTRACT FROM STORE SURVEY TABULATION

| A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z | AA | BB |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | A | A | A | B | B | B | X | Y | Y | A | B | Y | A | A | C | 1 | a | A | – | B | B | a | – | – | C | C |
| B | A | A | Y | A | A | B | A | Y | Y | A | B | Y | A | B | A | 2 | B | B | – | a | b | a | A | A | B | B |
| A | A | A | Y | A | A | A | A | Y | Y | A | A | Y | A | A | A | 2 | A | A | A | A | A | A | – | – | A | A |
| A | A | A | X | B | B | A | B | Y | Y | A | B | Y | A | A | B | 3 | A | A | A | A | A | A | A | A | A | A |
| B | B | C | N | C | B | B | B | Y | X | B | B | Y | B | B | A | 2 | X | X | A | a | a | a | – | – | X | X |
| A | A | A | Y | A | B | A | B | Y | Y | B | C | Y | A | B | A | 1 | X | X | A | A | A | A | – | – | B | C |
| X | A | A | Y | A | A | B | A | Y | Y | A | A | Y | A | A | A | 1 | A | A | A | X | X | – | A | A | B | B |
| B | A | A | Y | A | A | A | A | A | Y | Y | A | A | Y | A | A | 1 | B | A | A | X | X | X | A | A | A | A |
| A | A | A | Y | A | A | A | A | A | Y | Y | A | A | Y | A | A | 1 | A | A | A | X | X | – | X | X | X | X |
| A | A | A | Y | B | B | A | A | Y | Y | A | A | Y | A | A | A | 1 | A | A | A | A | A | A | – | – | A | A |
| A | A | A | Y | A | A | B | A | A | Y | Y | A | A | Y | A | A | 1 | A | A | A | A | A | A | A | A | A | A |
| A | B | A | Y | B | B | C | B | Y | Y | A | B | Y | A | A | A | 1 | A | A | A | A | A | A | – | – | – | – |
| A | A | A | Y | B | B | B | A | Y | X | B | B | Y | A | A | B | 1 | B | B | B | A | A | A | A | A | C | C |
| A | B | C | N | C | C | B | C | Y | Y | B | C | B | B | B | B | 1 | X | X | – | A | A | A | A | A | B | B |
| A | A | A | Y | A | B | A | B | Y | Y | B | B | N | A | A | B | 1 | A | A | A | A | A | A | – | – | A | B |
| A | A | A | Y | A | A | A | A | Y | Y | A | A | Y | A | A | A | 1 | X | X | A | A | A | A | – | – | A | A |
| A | A | A | Y | A | A | A | A | Y | Y | B | B | Y | C | C | B | 1 | X | X | C | X | X | X | – | – | A | A |
| A | A | A | Y | A | B | B | A | Y | Y | A | B | Y | A | A | A | 1 | X | X | X | A | A | A | – | – | X | X |
| B | A | B | Y | B | A | A | A | Y | Y | A | A | Y | A | A | A | 1 | B | A | A | A | A | A | A | A | A | B |
| A | B | A | Y | B | A | A | A | Y | Y | A | A | Y | A | A | A | 1 | A | A | A | B | B | B | – | – | – | – |
| A | B | A | Y | A | A | A | A | Y | Y | A | A | Y | A | A | A | 7 | A | A | A | B | B | B | A | A | A | A |
| A | A | X | – | A | A | A | A | Y | Y | X | A | Y | A | B | B | 1 | A | A | A | A | A | A | – | – | B | A |
| A | A | A | Y | A | A | A | A | Y | Y | B | A | Y | A | A | A | 1 | A | A | A | A | A | A | – | – | A | A |
| A | A | A | Y | A | B | A | B | Y | Y | A | A | Y | A | A | B | 2 | A | A | A | A | A | A | A | A | A | A |
| A | A | A | Y | A | A | A | A | Y | Y | A | B | Y | A | A | A | 1 | A | A | A | A | A | A | – | – | B | A |
| A | A | B | Y | A | A | A | A | Y | Y | A | A | Y | A | A | A | – | – | – | A | A | A | A | – | – | B | B |
| A | B | A | Y | B | B | A | A | Y | Y | A | B | Y | A | A | C | 2 | A | A | A | B | B | B | – | – | X | X |
| A | A | A | Y | A | B | A | A | Y | Y | A | A | Y | A | A | A | 1 | A | A | A | A | A | A | – | – | X | X |
| A | A | A | B | A | B | A | A | Y | Y | A | A | Y | A | A | A | 1 | X | X | A | A | B | A | – | – | A | A |
| A | A | A | Y | A | A | A | A | Y | Y | A | A | Y | A | A | A | 1 | A | A | A | A | A | A | X | X | X | X |

Each line of data, horizontally from the left, represents a store unit, identifying numbers being intentionally deleted.

KEY OF REFERENCE LETTERS USED IN STORE SURVEY TABULATIONS

| | | | |
|---|---|---|---|
| Column | A | Store Number and Classification | |
| " | B | Rating of Location | X—Could be improved |
| " | C | Exterior Appearance | |
| " | D | Effectiveness of Window Display | X—Could be improved |
| " | E | Utilization of Window Space | X—Could be improved |
| " | F | General Attractiveness of Store | |
| " | G | General Appearance of Interior | |
| " | H | Appearance of Store Fixtures | |
| " | I | Effectiveness of Merchandise Display | X—Could be improved |
| " | J | Price Tags Properly Placed | X—Varies |
| " | K | Prices Uniform with other Almar Stores | X—No comments |
| " | L | Cleanliness of Store | X—Could be improved |
| " | M | Merchandise Appeal to Eye | X—Could be improved |
| " | N | Stock Placed Systematically | X—Could be improved |
| " | O | Manager's Characteristics—Rating | X—Average |
| " | P | Manager's Personality—Rating | X—Average |
| " | Q | Manager's Appearance—Rating | X—Average |
| " | R | Number of Clerks—Rating | |
| " | S | Appearance of Clerks—Rating | X—Average |
| " | T | Personality of Clerks—Rating | X—Average |
| " | U | Selling Ability of Store Personnel—Rating | X—Could be better |
| " | V | Competitive Stores—Effect of Window Display | X—Varies |
| " | W | Competitive Stores—General Attractiveness | X—Varies |
| " | X | Competitive Stores—Attractiveness of Mdse. Display | |
| " | Y | Condition of Meats | X—Could be better |
| " | Z | Rating of Meat Display | X—Could be better |
| " | AA | Conditions of Fruit and Vegetables | X—Could be better |
| " | BB | Rating of Fruit and Vegetable Display | X—Could be better |

Ratings: A—Good. B—Fair. C—Poor. Columns E, J, K, N, Y.—Yes. N—No.

Figure 57. A Tabulated Summary of Chain Store Reports Covering 30 Store Units—Such as Used by Almar Stores Co., Philadelphia. (From *Chain Store Age*, May, 1929.)

accounts. The costs of conducting a business with such liberal credit privileges also rose in proportion. There appear to have been at all times retailers who sold for cash only, but a real expansion of the cash business followed the general overexpansion of the credit business. Here and there, retailers seized upon the opportunity to save the charge account expense and to convert this saving into lower retail prices. The savings proved attractive to the public, or at least to large sections of the public. Chains which came into existence during this period were quick to sense the trend, grasp this policy, and carry it into effect.

In recent years, chain stores have been established offering almost every conceivable variation in retail service. There are some chains that offer delivery service, others that offer charge account privileges. Chain business is not now dependent upon limited forms of service. In fact there are some chains whose entire business is the sale of service such as hotels, theatres, laundries, shoe repair shops, garages, etc. The important fact is that certain proportions of the public prefer limited service, or at least the savings that may be effected in retail prices as a result of limited services. Others prefer full service and are willing to pay the difference in costs to secure it. When the cash and carry business reaches the point of maximum application, then the development of chains beyond that point is certain to be in the field of service retailing.

**5. Specialization in Goods Handled.**—Most chain stores specialize in the goods they handle, not only in handling but a few, well-selected lines of merchandise, but also in attempting to have and to offer for sale only those items that sell most readily. They attempt doing in retail distribution what Henry Ford did in automobile manufacturing. They fix upon that which most people want and then concentrate upon that. Slower-selling lines, goods offering smaller profit-making prospects, and merchandise in which losses are likely to occur, such



as perishables, are usually left out and allowed to go to the other competing stores of the community. This specialization in lines handled is more significant in chain store success than has commonly been understood.

It is obviously impossible for a retail store to attempt to carry everything that consumers might ask for. The variety of goods now produced and offered for sale is much too wide for any retail store to handle all of them. Furthermore, consumers' wants, whims, and desires vary from day to day and from person to person. Most wants, however, tend to group themselves around a relatively small number of items of goods. The most successful chains give unceasing study to consumers' wants and attempt to carry only such goods as meet a high average of the wants of average people. Consequently, chain store stocks are proverbially light as compared in number of items with the stocks carried by independent stores. A chain grocery store ordinarily has but 800 to 1,200 items, while most independent stores carry from 1,500 up to 2,000, or even more items. On the other hand, the chain's merchandising policy secures active selling and turnover on practically all goods carried, while half or more of the goods carried in stores that do not follow consumer demand quite so closely are inactive. The capital tied up in such goods is wasted, and the chances of final loss are very great. The chains have apparently not been so highly successful in fashion goods as they have been in staples, but progress is being made in these lines also. It is not impossible, it is now known, to chart the trends of fashion and to predetermine customers' wants even in these lines. Chains are as likely to succeed in merchandising fashion goods as other dealers after they have learned how to check the movements of fashion. There are already many successful beginnings.

Finally, most chains specialize in merchandise at a few prices known to be popular and let the demand for goods at all

other in-between prices go to individual stores or other competitors.

**6. Chain Store Expenses.**—Definite, conclusive evidence of a comparative nature as to whether chain stores are able to perform the functions of distribution from producers to consumers more economically than other types of distributing institutions, is not available. Statements have frequently been made urging that chain stores have lower operating expenses than other types of distributors, and detailed figures have even been presented to substantiate these statements. On examination of such facts, however, it has usually been found that the figures offered for comparison are not comparable. Chain stores that offer a more limited service than independent stores may, of course, have lower operating expenses to the extent of the costs of performing these services. Similarly, a chain store that handles non-perishable staples does not have as high operating expenses as a store that carries a full line of perishables as well. Comparing the operating expenses of a cash and carry grocery store handling a limited line of non-perishable groceries with the operating expenses of a retail institution granting credit, making frequent deliveries, and handling a wide variety of foods, both staple and perishable, would be unfair. Comparisons of figures are meaningless unless the figures represent the same things. Operating expenses vary widely in accordance with services performed and also for various kinds of merchandise handled. Comparisons of operating costs of chain stores with other types of retailing institutions must continue to be largely valueless until these factors are given proper consideration. It may be safely presumed, however, that chain store operating expenses do represent a high level of efficiency.

**7. Lower Prices to the Public.**—One of the most important factors in the rapid and successful growth of chain store systems in this country has been the fact that the prices have been



lower than in other types of retail institutions. Whether chain store prices are always lower than in independently owned stores may be questioned. Whether, in cases where chain store prices are lower, the difference may be due to differences in operating expenses, in profits, or in lower prices paid for the goods because of greater buying power, are matters for further study and comparison. That chain store prices have been and are lower on a great many items may be safely assumed. The growing patronage of the public among chain stores proves that there must be price advantages.

**8. Buying Power.**—One of the greatest factors of the success of the chain is its buying power. The quantity taken and the ready cash resources command every advantage and every discount afforded by the market.

There is scarcely a line in which quantity does not in some way control price. This applies not only in the purchase of merchandise for resale but also in the purchase of supplies of all kinds and of store equipment. The opportunity to turn merchandise promptly into cash is exceedingly attractive to most producers and suppliers.

Long-term purchase contracts often made by the chains make it possible for producers to concentrate on economical production, to make timely purchases of raw materials, control investments in inventories, establish standard production methods, and carry on operations during dull seasons. Such production programs make lower prices possible both to the distributor and to consumers.

Chain stores that work on a large-scale basis with producers over a considerable period of time may also indicate desirable changes in the merchandise, such as improving the quality for the same price as well as producing the same quality at lower costs.

Large chain store systems commonly assume a considerable part of the functions of wholesaling and of brokerage, in lines

where brokers exist, and in the assumption of these functions they command the prices and conditions of purchase enjoyed by the trade factors. Chain stores that assume wholesaling functions must bear some of the operating expenses of wholesaling, but are able to make some savings over the expenses of regular wholesaling institutions.

The larger chain systems in some lines are able to buy larger quantities and secure better prices than even the wholesalers of such lines. While chains patronize wholesalers on lines in which service is needed and quantities are not large, it is also known that wholesalers sometimes buy from chain stores rather than direct from manufacturers.

Chain Store Sources of Supplies. It is commonly believed that chain stores make all of their purchases direct from producers. This is only true in part. The larger chains do buy direct, but great numbers of chains of all sizes are also large purchasers from wholesalers and other middlemen. There are, apparently, very few of the smaller chains which do not use wholesaler resources extensively. It would indeed have been very difficult for the chain stores to attain their early success and growth had it not been for the opportunity to place their patronage with wholesalers. Buying direct varies with the lines and the customs of the trade. Generally speaking, it begins to be an important method of getting goods when the chain has reached a size permitting it to purchase in sufficient quantities to make the direct contact profitable. Even if possible, it usually does not pay to maintain a direct contact if the quantities purchased are small. Chain stores, in common with all other retail stores, vary in capacity for handling the various commodities carried. Large quantities of some goods and very small quantities of others is the rule. Purchases made direct begin in most cases on those commodities in which the volume is greatest, and purchases from wholesalers continue on smaller volume items long thereafter, even in the largest chains.



In not a few chain store organizations it has been found preferable to utilize wholesale concerns and their warehousing and delivery facilities rather than to establish warehouses of their own. The experience and skill of the wholesaler in warehousing, when his services are available to the chain store on a favorable financial basis, make it profitable for the chain to use these services.

Warehousing constitutes one of the difficult problems of chain store management. Some chains undertake warehousing for their unit stores in much the same way as wholesalers perform this function for their retail customers. Others, as indicated above, maintain connection with wholesalers who perform the warehousing and shipping functions. Others go as far as they can in arranging with producers to make shipments direct to the chain retail stores. The trend toward drop shipments has been increasing for a number of years. Numerous chains that formerly maintained warehouses have either closed them up or reduced their size in favor of arrangements made with manufacturers to ship direct to the stores. The extra handling in warehousing, it is felt, is an economic waste which adds to the operating expenses.

Manufacturing by Chains. Most of the larger chains have private brands and trade names of their own. Some of them push these brands actively, while others allow their branded goods to take an even chance with other competing goods carried in stock. Privately branded goods are often made for the chains by outside manufacturers by contract. When, as is sometimes the case, the chain is financially and organically connected with a manufacturing concern, the brands produced by the factory are, of course, more intensively pushed.

Manufacturing is widely carried on in certain lines by the larger chains. In the grocery field, baking and coffee-roasting plants are adjuncts of most of the larger chains. Some of them also manufacture chocolate, candy, flavoring extracts, and so

on. One or two of the largest concerns own salmon canneries, milk condenseries, meat, fruit, and vegetable packing plants.

Published statements of chain store executives indicate a wide difference of opinion as to the soundness and expediency of embarking into wide-scale manufacturing programs. The statements of some of such executives indicate that they look forward to a continued and increased development of chain-owned factories, while in other cases, equally competent executives are opposed to taking on any manufacturing interests. Present conditions in the manufacturing industries, so they urge, make it more desirable for the distributor to buy finished products than to try to make them as well as sell them. If and when manufacturing industries become more stable and secure, some control over the present unregulated elements that result in frequent overproductions, it may well be that the big chain stores will then become important manufacturers as well.

Where it is not possible to secure a continuous flow of goods at reasonable prices, chains may and often do go a step farther and establish their own factories.

**9. Publicity and Sales Promotion.**—In the earlier days of chain store development much, if not most, of the emphasis of sales promotion was placed upon price. Cutting under regular or established retail prices as a means of attracting attention and drawing trade was common. Loss leaders were, and still are, extensively used as a means of securing trade. Formerly, some of the chain organizations supplemented their cut-price arguments by the use of trading stamps, premium plans, and other schemes to attract trade. There appears to be less of this practice now.

There are indications that the chain store emphasis placed upon prices is changing if not declining. Chain stores, in common with other retail institutions, are trying to secure a profit on all goods sold instead of selling some at less than operating costs. Loss leaders attract trade, but the trade is often confined



to the leaders, and the opportunities sought to recoup the losses on such goods by selling other goods upon which larger margins were obtainable are not always realized. The use of loss leaders is, after all, but a trick method of getting trade. It is not scientific merchandising. Considerable internal opposition to the use of loss leaders has developed in recent years among several chains. It has been frequently remarked among those following price maintenance controversies that breaks or cuts in suggested resale prices during recent years have been more frequently made by independent stores than by either chain stores or department stores. Many chains no longer use nationally advertised branded goods as leaders.

It must not be assumed, however, that price appeal has been dropped by chain stores. Price has always been and is now a highly important factor in consumer purchase and, therefore, must always be a matter for consideration in sales promotion. What is apparently happening, however, is that many chains no longer urge price and price only as the basis for drawing consumer trade. Quality, style, completeness of stocks, and even service are securing more attention.

**10. Chain Store Securities as Investments.**—Probably one of the most important causes of public interest in chains during the last ten years was the discovery, made by bankers and by the general investing public, that chain store securities offered exceptionally desirable qualities. A chain store organization, with its capital investments spread widely over many units, is secure against great catastrophic losses such as sometimes wipe out single institutions. It is secure against losses due to bad local business conditions. Its operations and methods have been standardized to the point that their future may be predicted. From the standpoint of the investor, a chain store security is somewhat like shares of ownership in an investment trust whose properties are equally widely spread.

In addition to the safety of capital afforded by the wide

distribution of risks in chain organizations, the profit-making possibilities of retail chain stores, at least during the last ten or twenty years, have been remarkable. In some concerns, the net profits have been extraordinarily high. For a number of years, the F. W. Woolworth Company's net income has averaged more than 10% of its sales. Similar earnings have been made by the S. S. Kresge Company, S. H. Kress & Company, and McCrory Stores Corporation. Many other chain store organizations have realized from 5% to 10% on their sales. The net profits in the chain grocery trade have not been so high in proportion to sales, but because of the high rates of turnover, the returns on the capital invested have been excellent. Even a net profit of 2% on sales, which is considered low in the chain store industry, becomes 20% on the capital invested in a business that enjoys 10 turnovers per year.

Whether chain stores may continue indefinitely to earn the handsome profits obtained during recent years, it appears certain that chain store securities will continue high in public favor. They now occupy a position of first eminence in the stock markets of the country, a position held some years ago by the choicest classes of gilt-edge railroad securities.

**Problems in Chain Store Administration.**—Despite the rapid growth and great success of chain stores in this and other countries, there are certain inherent difficulties in chain store administration that will bear enumeration and brief examination.

1. **Inflexibility.**—The chain store system with its standardized methods of operations and success, is often somewhat inflexible in meeting peculiar local needs. Some chain store executives profess an interest in mass demand and a lack of interest in consumer demand that is individual. Most chain stores, as already indicated, aim to carry the merchandise wanted by the largest groups of people. Items of occasional or



individual demand are passed over. This policy makes it possible for the chain store to operate on low inventories, secure rapid turnover, and keep expenses of operation down, but it does not adequately cover all of the needs of consumers. While there are indications that consumers' wants have been undergoing considerable standardization, one may not be sure but that with increasing incomes and rising standards of living this trend may change and a wider, rather than a more limited, variety of goods may be wanted. Chain stores, to continue their growth, must provide some degree of flexibility to meet the requirements of the individual clientele of their stores.

2. **Employee Problems.**—Chain store organizations are completely dependent upon the efficiency of their employees. The incentive to see the store succeed is probably never so specific nor so effective among average chain store managers and other employees as among owners of independent businesses. The lack of the incentive of ownership among chain store employees is to some extent compensated by carefully devised systems of remuneration, together with intensive inspection and supervision. The chain store, at its average, undoubtedly secures higher working efficiency than poorly operated independent stores, but it surely does not secure the devotion that the best-operated, individual stores command.

Not only is there lack of initiative among many chain store employees, but there is also constantly the hazard of dishonesty and graft. Even the thoroughgoing system of making the chain store manager absolutely responsible for every value placed within the store provokes dishonesty. Merchandise is usually consigned to the store manager, who must account for every item either in cash or inventory. Any shortage, no matter what its cause, means a loss out of the manager's pocket. In spite of the best of care, such losses do occur. There is a temptation of managers to recoup such losses by overcharges, short weights, short changing, or other methods of dishonesty to the store's

customers. Such practices, if not checked, must result in completely undermining the goodwill of the system.

Unionization of retail store employees has never been an important factor in this country. However, there are unions and, if, at any time in the future, conditions of retail store employment should become more standardized than they have been in the past, it might be safely presumed that such unions would grow and also that chain stores would very likely be the field in which such unions would exert heaviest pressure. Every objection ever raised against the introduction of labor-saving machinery, is apparently being raised in these times against the chains for their efforts to reduce labor requirements and costs.

**3. Objections to Chains.**—The chain store has its enemies. First of all, there are the retail dealers who are hurt by chain store competition. Back of these dealers so hit are the small-town newspapers patronized by those dealers, the bankers who see their retail accounts dwindling as chain stores grow, local real estate men who are eliminated from participation in handling chain store properties, local insurance men who obtain no share whatsoever in the placing of insurance on chain store properties, local painters, sheet metal workers, plumbers, and fixture men, who are not employed by chain store concerns on the establishment of new stores. Chambers of commerce seeking community development have difficulty in getting the cooperation of chain stores on their projects. Even preachers and priests have usually found that they could count on but little financial help for their religious projects from chain store units in their communities.

There is a certain amount of antagonism toward chain stores among trade union people who look upon the chain store system as a cause of throwing more people out of employment and thereby swelling the ranks of workers in other lines, and who look with disfavor upon the extension of the wage system



on a large scale to the management of retail stores, formerly the stronghold of small owners.

Some individuals and groups, interested in the betterment of economic conditions among farmers, are unfavorable to chain stores. The large chain grocery stores, in their opinion, tend to depress prices of farm products. The experiences of the farm cooperative groups, interested in the marketing of fruits, vegetables, and other products, with chain stores, have in some cases led them to the obvious conclusion that chain store buyers are out to get farmers' products at the lowest possible prices regardless of costs of production. This does not accord with the farm view of price making.

Objections to chain stores also arise from manufacturers who fail to work out satisfactory relationships with chain stores, from wholesalers who find their business declining because of the growth of chain stores, and from traveling salesmen who have little or no place in the system of chain store distribution.

The size of the chain store systems attracts the attention and challenges the questions of the public as to where the chain store movement is going to lead. The rapid growth of the chains is indeed rather terrifying to anxious but conservative people.

Absentee ownership is urged against the chains. To be sure, the chain store must employ local help, pay rent, taxes, and meet other expenses locally, but the profits of the business are sent to the headquarters of the concern instead of going into local investments or other channels helpful to the community. The justification for the chain in answer to this argument is that if the public purchases its goods more cheaply through the chain than elsewhere, then the savings in the pockets of the consumers do more good for the community than any accumulation of profits in the pockets of retailers.

One of the most troublesome problems that the chain store

has to face is the continual complaint that it does not enter into local community movements and participate in the development of community interests. Broadminded chain store executives are giving much thought to this problem and are attempting to overcome it, so far as possible, by urging their local managers to become identified with local movements, the chambers of commerce, the churches, and other organizations. The chain has, to be sure, a very real stake in the community in which its store is located. Its business can scarcely be successful if the community itself is not successful. This is true in spite of the fact, as pointed out by those opposing chains, that the interest of the chain in a single store or a single community can never be so great as the interest of the individual merchants whose entire fortune is at stake in the community.

One phase of this problem is the difficulty of making contributions to local charities and other worthy movements. The church, charity, or chamber of commerce, intent on securing funds for some worthy cause, is likely to look upon the chain store as a prospective contributor in proportion to the published volume and profits of the entire chain rather than as a local unit. Even though the local manager may contribute what might be fair in comparison with other local institutions, his contribution is likely to be considered insignificant because of the size of his organization. Much education must take place to secure a proper appreciation of chain store executives toward community problems and a proper public appreciation of the widespread responsibilities of chain stores to their respective communities.

**4. Anti-Chain Legislation.**—Another type of difficulty encountered by the chain is the adverse legislation intended to control or prevent the growth of chain organizations. There is scarcely a single state in the country in which efforts have not been made to pass laws which, if enforced, would have put many, if not most, of the chain stores out of existence. Anti-



chain store legislation has actually been passed in several states, but when tested in the courts has, so far, been found unconstitutional. While the chains have won their cases, they have been put to much trouble and expense to maintain their proper legal positions.

Chain store legislation has usually aimed to curb chains by one or more of the following methods:

1. A progressive tax on the number of stores owned by one concern. If such laws had been sustained, chain organizations with more than five stores would have been subjected to very high business taxes.

2. A progressive tax on individual company sales volume. This method would have hit the big department stores as well as the chains.

3. Attempts to redefine or alter present legislation on combinations in restraint of trade or on unfair competition in such a way as to make them apply to chain methods of doing business.

In 1928, the Federal Trade Commission was ordered by a Congressional resolution to make a comprehensive study of the chain store development, with a view to determining whether in this development there might be monopolistic elements or conditions of unfair competition.

It may be presumed that efforts to secure anti-chain store legislation will continue as long as chain stores continue to grow. The test of constitutionality, however, has been applied in so many different cases that new grounds for the restriction of chains will have to be devised to insure chances of interesting the public or the courts.

**5. Competition with Independent Stores.**—The more successful department stores have, so far, been able to hold their own against the competition of chain stores, in spite of the fact that almost every department store is more or less surrounded by chain stores handling competitive goods. The small inde-

pendent stores are the ones who have felt chain store competition most keenly.

It should be noted in passing, however, that the existence of chain stores, even when carrying lines of merchandise which may at first thought be considered competitive, are not always such. An analysis of the merchandise handled by chain stores usually shows a large number of items of qualities and at prices which are not handled by either department stores or specialty shops. In the many efforts that have been made both by consumers and by jobbers to compare values in chain stores and independent stores, it has been a matter of real difficulty to collect a representative number of items which, in uses and in quality, are either exactly or even approximately the same.

It is a matter worthy of specific attention that the chain stores, particularly in the 5 and 10 cents to $1 field, have introduced many goods in sizes and qualities which, for the most part, were not available before the advent of these stores. Because of the difference in qualities of these newer classes of goods, their prices are different as well. These goods have opened up new markets which independent stores and department stores might envy but which they would probably not have obtained, even if the chains had not arrived.

**6. Competition of Chain Stores with Chains.**—Chain store systems, throughout all of their earlier years, were unhampered by the competition of other chains. Their efforts to secure trade were made against department stores and small stores, and to a slight extent, the mail order houses. The point has now been reached, however, in many of the larger communities in which chain grocery stores, chain drug stores, chain 5 and 10 cent stores, chain shoe stores, and others, have begun to meet the sharp competition of other chains in the same lines, transacting business in the same way, offering similar merchandise at similar prices. The competition of the average successful chain with small independent retailers has been



child's play compared to the competition now developing with other chains. This new competition not only centers on such customary matters as prices, qualities, and services to the public, but also in intense efforts to secure the best locations, to build finer buildings, install more attractive equipment, and to undertake competitive sales promotion. It has been currently stated, both by independent retailers and by real estate men, that the competition among chains for the so-called "100% locations" in the larger cities has reached a point of bidding at which independents have been almost entirely eliminated and at which the chains themselves find it very difficult to make profits. The keenly competitive bidding for choice locations has resulted in real estate values for such locations rising many-fold. This competition for locations, in buildings and equipment, constitutes one of the most difficult problems that chain stores executives must meet.

Heavier advertising is also another consequence of this new competition. In recent years, chain store operators have become heavy newspaper advertisers, and in a few instances large users of space in national magazines. Among the latter are the Great Atlantic & Pacific Tea Company, the J. C. Penney Company, F. W. Woolworth Company, Piggly Wiggly, and Drug, Inc. With the coming of the mail order house chains, Sears, Roebuck & Company, Montgomery Ward & Company, and National Bellas Hess Company, who have always been heavy advertisers in one form or another, it may be presumed that advertising will be even more extensively used by all classes of chains than it has been in the past.

**7. Rising Costs.**—All of these competitive developments in the chain store field point rather surely to gradually increasing operating expenses. While immediate efforts in chain store operation are likely to be directed to the consolidation of the present status and the standardization of present operating costs, it is fairly certain that chain store operation will in the

future cost more rather than less. Thus any advantages in operating costs that chain stores now may possess over older methods of distribution of goods may, if not properly safeguarded, be sacrificed in the coming competitive struggles.

One of the methods of preventing ruinous competition among chains is through healthy trade association work. The active interests shown by the leading chains in the establishment of the National Chain Store Association in 1928, indicates a degree of openmindedness on the part of its executives toward the common problems of the industry that speaks well for the future of the relations of the chains. Although the expressed purposes of the National Chain Store Association at the time of its formation aimed mainly at other problems, it is reasonable to assume that the cultivation of friendly relations among its members may tend to prevent ruinous trade practices in the future.

A second method of preventing competitive waste among chains is the consolidation or merger of the competitive groups. This method has already been widely applied. The elimination of wasteful market methods is certainly one of the objects hoped for in some of the combinations that have already been formed. Following such consolidations, extensive programs of economy have been carried into effect, many competitive features eliminated, and non-profit-making stores closed up. The movement toward greater and greater consolidations of retail chains is likely to continue as long as permitted to do so by the public. The promises made by the promoters of such consolidations to secure greatly increased economies and greater profits may not always materialize, but at least these moves are in the direction of the elimination of competitive waste.

The question may perhaps be raised as to whether the point may some day be reached when the age-old controversy over the relative merits of free competition versus combination and market control, may not have to be fought out in the chain store field. The traditional public attitude opposing combinations and favoring open competition must be reckoned with. In spite of the present, favorable, or non-committal position of present governments, both state and national, this may not always continue. "Trust busting" may again become the popular, political fashion as it was back in the days of the 1890's and 1900's. Whether it does or not depends largely upon the intelligence shown by the present generation of chain store executives and chain store promoters in handling public relations. Ruthlessness and mismanagement of public opinion may easily turn the tide against the chains, and sweep in a régime of public control and regulation like that now exercised in the public utilities field.



In the meantime, while the broad economic processes are working out, it is to be hoped that so much information may be systematically and authoritatively secured as to prove once and for all what the practical and profitable limits of competition and of combination may be not only from the standpoint of private business but also from the standpoint of the public.

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# CHAPTER IX

## CONSUMERS' COOPERATIVE RETAIL STORES

The essential difference between a consumers' cooperative retail store and all other types of retail stores is in the fact that the consumers' cooperative establishment is owned, controlled, and managed by the customers of the store instead of by individual business men, partnerships, or corporations. Obviously, consumers' cooperation may be and is applied to a great many varieties of retail establishments. There are more consumers' cooperatives in the grocery and meat lines than any other, but there are also numerous dry goods, apparel, farmers' supplies, fuel and lumber, ice, and many other varieties of establishments.

**Buying Clubs.**—One of the simplest forms of consumers' cooperation of which there are many samples in the United States is the buying club. This is merely a group of consumers who pool their purchases through some one person, member, or office, with the object of securing the merchandise desired at a lower price. In some cases, the goods are distributed either directly to the members of the club or are delivered to the person acting as purchasing agent who, in turn, distributes them to the other members. Such consumer buying clubs are often established more or less spontaneously for the purpose of making single purchases; in other cases, they are organized for continuous operation.

A variation of the consumers' buying club is an organization created for the purpose of securing discounts on purchases made from regular retail stores. "The Association of Army and Navy Stores, Inc.," the "World War Veterans' Purchasing

Clubs," and various "employee cooperative associations" are illustrations of this type of club used to secure lower retail prices.

The Association of Army and Navy Stores, Inc., is an organization that serves officers and men in the United States Army and Navy and other branches of service, including ex-service men and nurses. It claims a membership of over 300,000, and lists over 3,400 retail stores that have agreed to give discounts to its members through the club headquarters.

The method of securing discounts is usually:

1. To build up an organization of enrolled members. A fee is required from each member to help meet the expenses of issuing member lists and announcements and to take care of correspondence and other promotion matter.

2. The list of members is taken to retail stores, shown to the managers, and requests made for special discounts off regular retail sales prices. Retailers are often induced to grant these requests on the ground that doing so may give them increased sales with new customers not already served by the store. In any case if the first retail store fails to accept the proposal, it is more than likely that some competitor will pick it up and gain some volume thereby. The discount granted usually ranges from 5% to 15%, averaging about 10%.

To avoid complications and undue publicity on these special arrangements, members of these buying clubs are usually advised to make their purchases at the regular prices. The sales slips obtained at the times of purchase are then sent to the headquarters of the buying club, which in turn collects the discounts or rebates from the stores and sends the proper amount of discount to the customer.

Some buying clubs make arrangements with wholesalers and manufacturers for purchases by their members at wholesale prices.

It is impossible to estimate the volume of business done through these buying clubs. Their number seems to be increasing, and the total volume of retail business transacted in this way is probably gaining.



**Miscellaneous Forms of Cooperative Retail Establishments.**—There are consumers' cooperatives that are veritable department stores. There are consumers' cooperative specialty shops. Consumers' cooperation has been applied to the ownership and management of mail order houses, and there are a number of chain store systems that are cooperatively owned by consumers. There are even instances of house-to-house distribution, partaking of the nature of peddling, owned and operated by the consumers themselves.

**Objects of Consumers' Cooperation.**—The purposes of consumers' cooperatives include:

1. The attempt to cut the costs of distribution.
   a. By reducing the number of middlemen handling ordinary lines of merchandise on passing from producers to consumers.
   b. By eliminating unnecessary services that add nothing to the consumption value of goods.
   c. By reducing some of the costs of selling such as are expended by privately owned stores for advertising.
   d. By saving the profits of the middlemen for the consumers or customers of the establishment.

2. The provision of honest weights and measures and of purity from adulteration. In the early days of the cooperative movement, this purpose was more important than it has come to be under modern conditions with modern public regulation and control in these matters.

3. A method of breaking up privately owned or controlled combinations, extorting unreasonable prices from or fixing unreasonable conditions of trading upon the public. The imminent possibility of arousing consumers to conduct their own dis-

tributive establishments may undoubtedly be a deterrent force upon powerful retail organizations that might otherwise exercise monopoly powers.

4. The education of consumers in democratic methods of management and on how to live together in organized communities. Many enthusiastic supporters of the consumers' cooperative movement urge that this object is more important than any other.

5. The promotion of fair and just relationships between buyers and sellers, employers and employees, by the elimination of exploitation and unfair practices in every form. The consumers' cooperative movement, so far as is known, is the only wide-scale business movement that has undertaken to conduct business on an ethical basis such as this. That there is not much to show for the consumers' cooperatives' efforts in the direction of this purpose is not to be wondered at. Consumers' cooperatives are everywhere in active competition with private businesses which are striving with might and main and almost solely for pecuniary benefit. Nor have consumers' cooperatives ever had a real opportunity to show what they could accomplish in the way of right business relationships since they have not yet, at least in this country, had a sufficient part of the retail business in any line to occupy a dominant attitude. According to students of the cooperative movement, the present tendency is to carry on business more and more in the same way as private business is carried on and to conform to the same standards.

**History of the Movement.**—The consumers' cooperatives, like most other forms of social organization found in this country, originated in Europe. Some of the earliest efforts to establish consumers' cooperative stores were made under the influence of the famous English industrialist and philanthropist, Robert Owen, during the period from 1820-1840. Probably some of the first cooperative societies were started



by fishermen and laborers at Brighton in 1827. The primary object of these early consumer-owned enterprises was to cut the costs of living and ameliorate the conditions of living among poor people. Merchandise was sold at cost. Business methods such as now followed by consumers' cooperatives were unknown.

The policy of selling goods at cost seems to have been one of the chief reasons for the failure of these stores. Due account was not taken of the various losses that are inherent in handling perishable goods. Each shop soon found itself drawing on its capital for the conduct of its business. Furthermore, selling goods at cost raised the ire and enmity of the regular retail dealers who everywhere united in undermining and destroying these early institutions.

The Owenite cooperative movement appeared in the United States as early as 1830. Consumer-owned retail stores were in that year established in Cincinnati and Philadelphia. In 1836, a national cooperative convention was held for the purpose of considering its possibilities for wide expansion.

**Rochdale Pioneers.**—In 1844, a small group of flannel weavers in Rochdale, England, organized a cooperative retail store on what was then a new and revolutionary basis. The Rochdale plan has since attracted world-wide attention and consideration, and has been very generally followed in all countries of the world.

The fundamental principles of the Rochdale plan of operation, as they were laid down by its originators and reinforced by the successful experience through the years following, are as follows:

1. Membership in a cooperative group may be secured by any consumer. Each member is expected to contribute a certain sum, generally a small amount, to the capital of the concern.

2. The organization is conducted on a democratic basis. Its officers are elected by the votes of the members.

3. Each member, regardless of the amount of capital contributed, has but one vote in the affairs of the organization.

4. Instead of selling at cost, consumer cooperatives organized under the Rochdale principle sell at regular market prices, and thereby obviate the extreme irritation of competing private retail businesses.

5. Cooperative stores under the Rochdale plan sell for cash only. In actual practice this has been found to be a difficult, if not impossible provision. Many cooperative stores in this country, otherwise conducted on the Rochdale plan, allow credit in limited amounts and for limited times to their members.

6. Profits when earned by the organization are divided among its members, not in proportion to capital contributed as in ordinary corporations but in proportion to purchases made during the preceding period.

7. An essential feature of the Rochdale plan of operation is the definite provision in its program for the education of its members and of the public in the principles of cooperation and in methods of conducting cooperative enterprises.

**Consumers' Cooperation in the United States.**—Following the early efforts made in Cincinnati and Philadelphia in 1830, organizations were next effected in the middle 1840's in New England. These were probably modeled on the Rochdale plan. The more important efforts to establish consumers' cooperatives in the years following developed as a part of other social movements. The Order of the Patrons of Husbandry, established in 1867, made consumers' cooperation in buying one of its cardinal principles. By 1875, consumers' purchasing was carried on in as many as 10,000 different branches. The movement enjoyed a whirlwind growth but was unable to stabilize itself, and many of the cooperative retail stores established as a part of this movement passed out of existence. A few of them, widely scattered over the United States, have weathered



all storms and are still continuing to function. During recent years, the Granges have enjoyed a renewal of growth, but consumers' cooperation is not now pressed as one of the essentials of this movement.

The Sovereigns of Industry, organized in 1874, opened retail cooperative stores throughout all the Atlantic Coast states, but most, if not all, of these institutions have passed out of existence.

Next, the cooperative idea was taken up by a labor organization, the Knights of Labor, organized in 1894. This association started a number of cooperative retail stores, but failure in its political programs led to the failure of the stores as well.

Throughout the 1890's, sporadic, individual efforts to organize consumers' cooperative stores occurred in various parts of the country. Some of these stores are still in existence, but most of them enjoyed only a brief career.

In 1900, a new organization was formed, the Right Relationship League, made up principally of farmers and small-town people in the Middle West who fostered and promoted the establishment of consumers' cooperative stores. It reached its peak with about 200 stores to its credit in 1915, but during the following period of participation of the United States in the World War, this organization declined. Some of its retail stores failed and many sold out. Others have continued on a cooperative basis.

Various other movements originated before the period of the World War, such as the Consumers' Alliance among the soft coal miners in central and southern Illinois beginning in 1910, the Finnish Cooperative movement in northern Michigan, Wisconsin, and Minnesota beginning in 1911, and the Farmers' Equity Society, at about the same time. All were, either directly or indirectly, instrumental in establishing many retail cooperative stores. In the period following the World War, and particularly in the business depression of 1920-1921,

consumers' cooperatives suffered greatly, but since then there has been a steady growth in the cooperative movement.

**Present Extent of Consumers' Cooperation in the United States.**—As stated in a study of cooperative movements in the United States made by Florence E. Parker of the United States Bureau of Labor Statistics for the year 1925, there were at that time over 2,000 cooperative retail societies with a membership of 527,900 and estimated sales of $179,739,800. According to this report, these consumers' cooperative societies were very widely scattered throughout the country, many of them isolated and out of touch with other cooperative groups.

Among the leading consumers' cooperative organizations in the United States at the present time the following may be mentioned:

The Franklin Cooperative Creamery Association of Minneapolis, Minnesota, is probably the largest consumers' cooperative organization in the country. Its sales in 1928 were in excess of $3,400,000. This organization at that date served about 40,000 customers, including homes, schools, shops, and stores, and its distribution included 165 market routes and 10 ice cream routes covering every section in Minneapolis and outlying districts. It had 415 employees, all of whom are stockholders in the association and, at the same time, members of some local trade union organization. The company carried group insurance amounting to $500 on each employee, with an increase of $100 for each additional year of service up to a maximum amount of $2,000. The Franklin Creamery ascribes its success to its close adherence to Rochdale principles and continuous educational work among its members.

The Cooperative Trading Company, Waukegan, Illinois, deals in groceries, meats, bakery products, and milk. Its sales amount to about $700,000 a year.

The Consumers' Cooperative Service of New York City owns and conducts 8 successful cafeterias and restaurants.



The Soo Cooperative Mercantile Association is the leading grocery organization of Sault Sainte Marie, Michigan. It runs a chain of 8 stores and has its own bakery. Its annual sales are in excess of $650,000 a year.

The Cloquet Cooperative Society of Cloquet, Minnesota, deals in foods and general merchandise. Its sales amount to $550,000 a year.

There are more than a score of cities in which bakeries are operated by consumers' cooperatives. There are nearly 30 cities in which restaurants are consumer-owned and operated, and 10 cities in which dairies are owned by consumers' cooperatives.

The movement for the establishment of cooperative wholesale societies has been rather slow in getting under way in the United States. This has been in part due to the slow development of retail stores, and in part to the fact that retail cooperative stores have been very widely scattered. At the close of 1928, there were cooperative wholesale societies in Seattle, Washington; Superior, Wisconsin; Omaha, Nebraska; and New York City.

There are more consumers' cooperative stores in the Middle Western states, including Kansas, Nebraska, Minnesota, Wisconsin, Iowa, Illinois, and North and South Dakota, both in actual numbers and in proportion to population, than in the other states of the Union. In passing, note may be taken that in the states in which the consumers' cooperative movement seems to be strongest, the chain store movement, based on number of chain stores in relation to population, is weakest. Whether there is any logical connection between these facts is not known.

The Cooperative League of the United States is an association that loosely unites the various cooperative associations of the country. The purpose of the League is primarily to promote public interest in consumers' cooperatives, teach sound methods of cooperative organization, and provide expert advice, including accounting service and auditing, for coopera-

TABLE 17. CONSUMERS' COOPERATIVE ORGANIZATION BY COUNTRIES
(From *Monthly Labor Review*, June, 1927.)

| Country | Year | Number of Societies | Membership | | Per Cent Population Served by Cooperatives | Yearly Sales[1] | | Share Capital | | Net Gain for Year |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Members | Average per Society | | Amount | Average per Society | Average per Member | Total | Average per Member | |
| Argentina | 1926 | 206 | 118,945 | 577 | 1 | $ 145,108,145 | $704,408 | $1,220 | $ 37,337,781 | 314 | |
| Australia | 1924 | 118 | 86,116 | 730 | 6 | 25,801,253 | 218,655 | 300 | | | |
| Austria[2] | 1925 | 127 | 366,000 | 2,838 | | (3) | | | | | |
| Belgium[2] | 1924 | 54 | 270,189 | 5,004 | 20 | 19,298,782 | 357,385 | 71 | 490,536 | 2 | |
| Canada[2] | 1925 | 46 | 7,308 | 457 | | 2,792,872 | 174,555 | 382 | 354,971 | 49 | 154,149 |
| Czechoslovakia[2] | 1925 | 785 | 758,035 | 968 | | 48,029,034 | 61,183 | 63 | 599,420 | 1 | 4,164 |
| Estonia[2] | 1924 | 268 | 79,518 | 295 | | (4) | | | | | |
| Finland | 1925 | 565 | 370,548 | 672 | 10 | 59,109,598 | 104,725 | 156 | | | |
| France[2] | 1926 | 2,543 | 507,983 | 212 | 3 | 25,518,235 | 10,035 | 45 | | | |
| Germany[2] | 1925 | 1,110 | 3,382,011 | 3,218 | 20 | 430,052,830 | 139,530 | 43 | 4,759,312 | 1 | |
| Great Britain[2] | 1924 | 1,280 | 4,910,083 | 3,810 | 45 | 887,327,373 | 687,704 | 181 | 413,180,512 | 84 | 81,426,086 |
| Hungary[2] | 1925 | 1,951 | 870,549 | 446 | 40 | 61,202,520 | | | | | |
| Netherlands[2] | 1924 | 7,396 | (5) | | | 61,605,932 | 8,735 | | | | |
| Norway | 1925 | 232 | 146,241 | 630 | 10 | (3) | | | | | |
| Poland | 1925 | 850 | 109,521 | 129 | 15 | [2] 24,159,193 | [2] 234 | | 1,941,530 | 19 | 987,271 |
| Portugal[2] | 1925 | [2] 1,300 | [2] 96,500 | 697 | | (3) | | | | | |
| Russia | 1922 | 188 | 91,907 | 484 | | 33,492 | 178 | (6) | | | |
| Sweden[2] | 1926 | 27,438 | 11,401,708 | 416 | 30 | 3,553,500,000 | 129,510 | 312 | | | |
| Switzerland | 1925 | 900 | 315,925 | 366 | 20 | 69,599,598 | 80,555 | 220 | 10,595,662 | 34 | |
| Ukrania[2] | 1925 | 421 | 352,250 | 676 | 35 | 53,248,052 | 102,205 | 151 | 1,935,788 | 5 | 2,974,052 |
| United States | 1925 | 6,371 | 1,597,000 | 246 | | 219,456,435 | 33,757 | 137 | | | 3,095,564 |
| | 1925 | 1,703 | [6] 527,900 | 310 | 2.5 | [6] 179,739,860 | 105,543 | 354 | 6,871,230 | 68 | 1,608,609 |

[1] Converted into United States currency on basis of par value for Canada, Germany (23.8 cents), Netherlands (40.2 cents), Russia and Ukrania (51.5 cents), Sweden (26.8 cents), and Switzerland (19.3 cents); and on basis of average exchange rate for year for Argentina (42.35 cents), Australia ($4.829), Austria (14.06 cents), Belgium (4.63 cents), Czechoslovakia (2.96 cents), Finland (2.52 cents), France (3.27 cents), Great Britain ($4.849), Hungary (0.000014 cent), Japan (42.03 cents), Norway (17.80 cents), Poland (17.75 cents), and Portugal (6.85 cents).

[2] Figures apply only to societies affiliated to central cooperative organization or organizations.

[3] Data not available.

[4] Impossible to convert for lack of exchange rate; sales amounted to 2,423,144,000 Estonian marks.

[5] Less than 50 cents.

[6] Estimated.



TABLE 18. COOPERATIVE WHOLESALE SOCIETIES

The following figures are taken from the International Cooperative Bulletin for November, 1926. They show for each how many retail societies are affiliated, and, in pounds sterling, just how much business each of these organizations has done in 1924 and 1925.

| | No. of Affiliated Societies | 1924 | 1925 |
|---|---|---|---|
| Austria. Grosseinkaufsgesellschaft österr. Consumvereine | ..... | £1,983,191 | £ 2,061,153 |
| Belgium. Fédération des Sociétés Coopératives Belges | ..... | 1,294,436 | 1,405,080 |
| Czecho-Slovakia. Velkonakupni spolecnost konsumnich druzstev | 358 | 3,664,714 | 3,363,289 |
| Grosseinkaufsgesellschaft für Consumvereine | 227 | 1,829,307 | 1,485,912 |
| Denmark. Faellesforeningen for Danmarks Brugsforeninger | 1,804 | 6,445,666 | 7,035,750 |
| Estonia. Eesti Tarvitajateühisuste Keskühisus | 277 | 684,623 | 802,118 |
| Finland. Suomen Osuuskauppojen Keskuskunta | 452 | 3,598,474 | 3,667,793 |
| Osuustukkukauppa r.l. | 112 | 3,127,231 | 3,435,602 |
| France. Magasin de Gros des Cooperatives de France | 1,533 | 4,494,502 | 3,517,989 |
| Georgia. "Tsekavshiri," Tiflis | ..... | 452,690 | 546,741 |
| Germany. Grosseinkaufsgesellschaft deutscher Konsumvereine, Hamburg | 894 | 8,208,824 | 11,262,066 |
| "Gepag," C.W.S. of Imperial Union, Cologne | ..... | 1,190,154 | 1,558,362 |
| Great Britain. C.W.S. Manchester | 1,171 | 72,888,064 | 76,585,764 |
| S.C.W.S., Glasgow | 265 | 17,307,707 | 17,659,069 |
| Holland. "Handelskamer," Rotterdam | 316 | 980,424 | 1,052,679 |
| Hungary. "Hangya," Budapest | 1,939 | 2,043,037 | 2,082,063 |
| Grosseinkaufs-und Verwertungs-Aktiengesellschaft, Budapest | 1,820 | ..... | 48,140 |
| Japan. C.W.S., Tokyo | ..... | 166,868 | 1,735,606 |
| Latvia. Centrale Saveeniba "Konzums," Riga | 382 | 1,090,067 | 1,328,572 |
| Lithuania. Lietuvos Koperacijos Bendroviu Sajunga, Kaunas | ..... | ..... | 190,196 |
| Norway. Norges Kooperative Landsforening, Oslo | 437 | 996,535 | 1,157,590 |
| Poland. Zwiazek Spoldzielni Spozywcow, Warsaw | ..... | 883,315 | 1,576,386 |
| "Narodna Torhowla," Lemberg | ..... | 110,179 | 107,810 |
| Rumania. Centrala Cooperativelor de Productie si Consum, Bucarest | ..... | ..... | 552,761 |
| Russia. "Centrosoyus," Moscow | 28,000 | 17,680,000 | 19,800,000 |
| "Selskosoyus," Moscow | ..... | 1,201,000 | 1,752,000 |
| Scandinavia. Nordisk Andelsforbund, Copenhagen | ..... | 870,761 | 815,348 |

TABLE 18. COOPERATIVE WHOLESALE SOCIETIES—*Continued*

| | No. of Affiliated Societies | 1924 | 1925 |
|---|---|---|---|
| Sweden. Kooperativa Förbundet, Stockholm | 900 | 5,049,610 | 5,443,143 |
| Switzerland. Verband schweiz. Konsumvereine, Basle | 517 | 5,107,200 | 5,026,131 |
| "Konkordia," Zurich | ..... | 284,593 | 250,021 |
| Union of East Swiss Agricultural Societies, Winterthur | ..... | 1,115,852 | 1,146,348 |
| Ukraine. "Wukopspilka," Charkow | ..... | 3,650,100 | 7,646,600 |
| "Silsky Gospodar," Charkow | ..... | 1,944,000 | 900,500 |
| United States of America. Central Cooperative Exchange, Superior | 65 | 139,367 | 171,920 |
| Nebraska Farmers' Union Exchange | ..... | ..... | 1,521,312 |
| Grange Cooperative Wholesale | 35 | ..... | 102,677 |

tives already in existence. It issues a number of pamphlets dealing with the subject of consumers' cooperation, and a monthly bulletin entitled "Cooperation." Its headquarters are in New York.

There is an organization of consumers' cooperative societies in the northwestern states called the Northern States Cooperative League, with headquarters at Minneapolis. This league was organized in 1921, and includes in its membership 41 local societies. It holds annual conferences of an educational nature at various towns in the Middle West.

**Consumers' Cooperation More Important Abroad.**—According to the most recent estimates available for 35 countries, consumers' cooperation in retail distribution has a combined membership of 27,000,000 representing a population of over 100,000,000 people and total yearly sales in excess of $5,500,000,000. Table 17, page 280, shows a list of 22 countries, the number of retail consumers' societies in each, total membership, yearly sales, total amount of share capital, and net gain for the last year for which reports are available. From this table it may be seen that there are more people interested in the



cooperative movement in Russia than in any other country. Great Britain comes second, Germany third, Ukrania fourth, and Poland fifth. Recent news items indicate growing cooperative movements in Spain and Portugal, in India and even in China.

There are national organizations of cooperative societies and wholesale societies in at least 24 countries. (See Table 18, page 281.) The largest and most powerful consumers' cooperative wholesale organizations are the Cooperative Wholesale Society of Great Britain, the Scottish Cooperative Wholesale Society, and the Russian organization known as Centrosoyus. The power of the British Wholesale Society may be seen from the fact that it is the largest single manufacturer, trader, and land-owner in the United Kingdom.

The consumers' movement in European countries, as well as in the United States, met with serious reverses in the post-war depression period. These reverses were generally due to economic conditions, as in Great Britain and Germany, but in part to political conditions, as in Italy. The Italian Cooperative Movement was unfortunate in having been allied with the Socialist political movement. With the assumption of power and control by the Fascisti, the consumers' movement, in common with socialism, passed into decline.

**Public Sympathy for Cooperative Movements.**—The organization of a consumers' cooperative movement has been highly endorsed by a wide variety of interests and organizations in this country, including several trade unions and the American Federation of Labor, by the Republican, Democratic, and Socialist political parties in their platforms and by various farmers' organizations. The movement has had the active interest, if not the effective support, of the Federal Government through the Department of Agriculture, and of similar branches of many of the state governments. In attempting to outline methods of improvement of economic conditions, special

reformers generally urge the establishment of consumers' cooperation. It may be suspected that the idea of consumers' cooperation has sometimes been used by tired politicians, harassed by battling interests, as a means of relieving political pressure. Cooperation is something that cannot be secured by law. It is dependent upon the efforts of the cooperators themselves. It may be presumed that such suggestions are often made with neither hope nor real desire that anything may come of them.

Consumers' cooperatives have received considerable legislative encouragement in the form of laws making it easy to establish cooperative societies, and, in some cases, freedom from fees and taxes such as are assessed against ordinary private corporations. In some countries, cooperative societies are entirely tax-exempt.

**Organization of a Consumers' Cooperative Store.**—Beyond the propaganda stage comes the work of establishing the institution. After the preliminary educational work has been done, a membership roll and subscription list is usually set up. When a sufficient number of members have been secured, an election is held for the purpose of designating officers and a board of directors to undertake the work of starting and managing the store.

Cooperative societies are, in some instances, organized as corporations under regular corporation laws and in other cases as mutual aid associations. Concerns, such as retail stores, requiring considerable capital, are almost invariably organized as stock corporations. Membership in the stock corporation is obtained by the purchase of a share or shares of stock. Special arrangements are made to maintain the "one member, one vote" provision, either by limiting stock-ownership and requiring each member to contribute the same amount of capital and own the same number of capital shares, or by issue of two kinds of capital stock, but with the voting privilege on only



one of these. Each member is required to purchase one share of the voting stock and may buy but one share, but may buy as many shares of the non-voting capital stock as he may desire, these shares serving merely to indicate amounts of investment and rights to receive interest or profits thereon.

An important consideration in the ownership of stock in a private corporation is the right to vote and to share in the profits in proportion to stockholdings. In consumers' cooperative organizations, there is not only a limitation of the right to vote but also usually a limitation on the rates of dividends. The amounts paid out in dividends are often made equivalent to the current rates of interest. Though called dividends, such payments are really interest for the use of the money invested in the business. Distribution of surpluses, when they occur, therefore consists of payments of limited dividends to the stockholders in proportion to their stockholdings, and whatever is left over is distributed to the customer members of the store in proportion to their purchases.

Following the usual organization of a stock corporation, consumers' cooperatives' shareholders elect officers and a board of directors for the purpose of carrying on the work of the society. There are usually several special committees, such as an organization committee responsible for employing a store manager and supervising the appointment and management of the assistants of the manager; a purchasing committee responsible for the control of all purchases, with the exception of small amounts which the manager may be permitted to handle without consent of the committee; a finance committee responsible for the control of the money advanced by the membership and its proper use in the operation of the institution; and, finally, an education and publicity committee whose duty it is to expand the membership and keep its present members deeply and continuously interested in the store and in the cooperative movement.

Under these committees come the employees hired to do

the work of the store including a store manager directly responsible to the cooperative organization and such assistants as may be needed, whose duties are designated and activities controlled by the store manager.

The democratic organization of a consumers' cooperative society permits every member to function, at least in the designation of the members of the board of directors and the corporation's officers. The committee system provides for the participation of many of the members of every society in actual supervision of the work of the store. Usually, these committees, it may be said, take their duties very seriously and spend a great deal of time in posting themselves on the activities of the store and in discussing the policies and methods of operation. Despite the functional advantages offered by this system of organization for its members, one of the dangers is that the manager may be required to attend so many committee meetings that much of his time will be used up in making and delivering reports and thereby hinder him from giving effective supervision and work to the store itself.

**Cooperative Store Expenses.**—Compilations of expenses of doing business through consumers' cooperative stores have been published in a number of places. The best compilation may be found in the report of Florence E. Parker on the "Cooperative Movement in the United States in 1925."[1] According to this report, expenses in general merchandise stores range from 6% up to 25% of sales. In grocery stores the range is from 4% to 29%, and in grocery and meat stores from 11% to 27% of sales. These wide variations are not to be interpreted as due to differences in efficiency of operation; they are more likely due to differences in kinds of merchandise handled and services rendered. If this assumption is correct, the ranges of expenses found in consumers' cooperative stores are very similar to the ranges in expenses found in privately owned and

[1] Cooperative Movement in the United States in 1925, Bureau of Labor Statistics, No. 437, 1927.



managed retail stores handling the same kinds of goods and rendering the same services.

There appears to be very little difference in the costs of doing business between cooperatives and privately owned concerns. Labor costs are about the same. Differences in other items, when they occur, are probably due to differences in services rendered.

**Causes of Failures in Consumer Cooperative Stores.**—While consumers' cooperation has enjoyed and is now enjoying a considerable growth in this country, it seems fair to state that its rate of growth has scarcely been proportionate to the amount of promotion and encouragement it has received, and certainly not to the rate of growth of general business. The movement, wherever it has been established, has been characterized by a high failure rate. The retail business generally suffers a rapid change in business management. A considerable proportion of retailers in every line fall out every year, to be followed by others who keep up the high total number of retail stores in existence. Any statement of the high failure rate found among consumers' cooperative stores needs to be considered in relation to the high failure and mortality rate found among all types of retail stores. On this basis, consumer cooperatives do not make such a bad showing, although the indications are that the failure rate among consumers' cooperative stores is somewhat higher than among privately owned stores. The reasons for the causes of failure of consumer cooperatives have received careful attention. Table 19 presents the causes of failure as reported by 154 consumer societies in which each cause named is either a sole or contributing cause.

In addition to the causes of failure enumerated in Table 19, there are, particularly in America, other reasons for the difficulties of consumer cooperation. Economic opportunity has generally been better here than elsewhere. Small savings possible through consumers' cooperatives, which mean much to the

industrial and poorer classes of European countries, seem insignificant to the more highly paid wage-earners in the United States. Further, the consumers' cooperative movement was established as a working class movement and has almost everywhere carried the badge of its origin. Many consumers in the United States who might otherwise have been interested in consumers' cooperation have shied at alignment with the working classes.

The workers themselves in the United States, including the farmers, have directed most of their organization efforts toward increasing their income rather than trying to make savings through organized purchasing. The emphasis has continuously been on production rather than on distribution.

The lack of a homogeneous population has often been urged as one of the reasons for the failure of consumers' cooperation in this country. Different races and nationalities do not easily work together in any type of organization and much less in a consumers' cooperative.

Perhaps the most important reason for the failure of the cooperative movement to assume an important place in retail distribution is the keenness of competition of privately owned business. Cooperative enterprise has succeeded best in the face of difficult trading conditions, such as retail monopolies, inconsiderate attitudes toward consumers, impossible conditions of trading, and so on. The keen competition among the various types of retail institutions prevailing in almost all communities throughout the United States has resulted in giving to consumers a type and degree of retail service probably unknown before in the history of the world. Despite all of the drawbacks and defects of the present retail system of distribution, the ultimate consumer probably receives more for his money at the present time than ever before. Under these conditions there is little need or economic justification for the establishment of another competitive factor in the retail field.

There are psychological difficulties inherent in cooperation,



TABLE 19. CAUSES OF FAILURE OF CONSUMERS' COOPERATION, AS REPORTED BY 154 SOCIETIES

(From *Monthly Labor Review*, July, 1926.)

| Causes of Failure | No. of Cases |
|---|---|
| Due to members: | |
| Insufficient capital | 78 |
| Lack of patronage and support | 13 |
| Lack of cooperative spirit | 6 |
| Loss of interest | 10 |
| Factional disputes | 2 |
| Undue interference in management | 2 |
| Total | 111 |
| Due to directors: | |
| Lack of experience | 9 |
| Lack of interest and oversight | 2 |
| Total | 11 |
| Due to manager: | |
| Inefficient management | 18 |
| Overstocking | 11 |
| Poor bookkeeping | 2 |
| Dishonesty of manager or clerks | 7 |
| Total | 38 |
| Due to members and manager, jointly: | |
| Unwise extension of credit | 27 |
| Disproportionately high expense of operation | 19 |
| Operation on too small a margin | 1 |
| Operation on borrowed money | 28 |
| Money tied up in fixed assets | 13 |
| Total | 88 |
| General: | |
| Declining prices | 77 |
| Poor location of store | 1 |
| Strike | 2 |
| Depression or unemployment in trades of members | 4 |
| Fire | 2 |
| Purchase of old, slow-turning stock | 3 |
| Total | 89 |

such as the necessity in a cooperative society for the members to work with and to go with their groups. Cooperative effort involves personal sacrifice of individual viewpoints. Were the necessity for this sacrifice very great, most people would undoubtedly adjust themselves to it, but with fairly satisfactory retail service available from private concerns and with but little to gain through cooperation, the incentive to cooperate is not very strong. If it should ever happen that any type of retail business should gain a position of control over the American market and thenceforth become careless of customer goodwill, it is easy to see that the cooperative movement might then move forward by leaps and bounds.

In many cases cooperation has been oversold. More has been promised from cooperation than could be delivered. Many well-meaning students of sociology even look upon cooperation as a possible means of regenerating human society and eliminating many of the unsatisfactory conditions that now prevail. Another, and from an economic standpoint, very serious defect in the cooperative movement has been its almost constant alliance or affiliation with other movements of social or political significance. Consumers' cooperation has been used as a platform plank by labor organizations, by farmer groups, by radical and conservative political parties, by feminists, by Christian Socialists, and by various other groups proposing the reform of human society. As a consequence of these alliances, it is not surprising that the cooperative movement has risen and fallen in unison with the successes and failures of allied movements. Cooperation has, in many instances, been but a pawn in a game played for other stakes.

When the cooperative movement was pushed by the Patrons of Husbandry, it rose and fell with the fortunes of that organization. Similarly, when taken up by the Knights of Labor it prospered until that organization began to fail, and then went to pieces with it. Consumers' cooperative groups in Europe have in some years risen to points of great influence



through participation in politics, only to be thrown out and to lose both influence and prestige on the change of the political control. Mention has already been made of the decline of the cooperative movement in Italy as a result of its alliance with the Socialists, the enemies of the present régime.

Important, permanent, economic progress in the consumers' cooperative field can scarcely be hoped for as long as the movement is associated with other movements subject to the ebb and flow of political, religious, or social fortunes. That this fact has come to be recognized by many leaders in the cooperative movement, points to a more conservative but surer development of consumers' cooperatives in the future.

**Supplementary Factors Required for the Success of Cooperation.**—A fundamental requirement of successful cooperation is intensive promotion and education. Wherever consumers' cooperation has succeeded it will be found that there have been individuals who have given their time and energy with unlimited zeal, and usually without expense, as missionaries to the movement. Were this promotion work placed on a business basis, it is difficult to see how the average cooperative retail store now in existence could possibly meet its bills.

Consumers' cooperation requires unselfish devotion and even great sacrifices from its promoters and executives. William Maxwell, the manager of the Scottish Wholesale Society up until a few years ago, who was responsible for a sales volume amounting to more than $50,000,000 a year, was content to remain in his position at a salary of only $38 a week. J. T. W. Mitchell, the manager of the Cooperative British Wholesale Society from 1874 to 1895, gave so much of his time and energy to the work of the society and devoted so little to the upbuilding of his own wealth that his estate at his death was appraised at only $1,750. These illustrations are typical of the burdens placed by cooperation upon its promoters. Long continuous service of able men is the rule.

Furthermore, a continuous program of education and publicity is essential to hold the cooperative group together after it has been organized. Many cooperative societies founded in the United States have overlooked this cause of disaster, and consequently have gone to pieces. The British societies have been wiser in this respect. Some of the individual members hold very radical views concerning politics and economics. Other members are strongly reactionary. The societies, as a whole, have avoided political biases and have kept closely to the immediate business of successful shopkeeping.

The British Cooperative Union is reported to expend more than $500,000 annually for the educational promotion of the cooperative movement, and most local societies carry on intensive educational work among their members. Promoters of cooperation sometimes urge that advertising and other forms of publicity are unnecessary in cooperative enterprises. This may be technically correct, but educational and promotion work are essential and these, in a very real sense, take the place of the publicity of private business. It may be found in the long run that as much must be expended in these forms to maintain the cooperative movement as is required for advertising to maintain the business of a private concern.

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# CHAPTER X

## DIRECT SELLING—PEDDLING AND CANVASSING

By direct selling is meant house-to-house selling either from stock carried along, in which case it is termed peddling, or by taking orders for later delivery, in which case it is called canvassing or simply order taking.

In England, a further distinction is made between peddling and hawking. A peddler, in England, is one who "Without any horse or other beast hauling or drawing burdens, travels and trades on foot and goes from town to town or to other men's houses, carrying to sell, or exposing for sale, any goods, wares or merchandise immediately to be delivered, or selling or offering for sale his skill in handicraft. A hawker is one who goes about with a beast of burden or other means of artificial carriage." [1]

**Peddling.**—Peddling is probably the most ancient form of retail distribution in the world. Wherever there was a surplus of goods to be marketed among other people, peddling was the method taken, and the professional peddler developed. Modern peddling includes not only the occasional traditional peddler with a pack on his back but those more often seen, who have more pretentious outfits; a pushcart, a horse and wagon, an automobile, a truck, or a beautiful retail store on wheels.

The types of goods generally sold at the present time through peddling include fruit and vegetables, fish, meats, groceries, patent medicines, toilet articles, tinware, and so on. The peddlers of fruits and vegetables and fish frequent the residential sections of the large cities and particularly the sub-

[1] Definition from an old English statute.

Figure 58. A Rolling Store
Reproduced by courtesy of *Chain Store Age.*

urbs. The raucous cries of the street vendors and the coarse call of the fish-peddler's horn are well-known to most city people.

Pushcart vending prevails almost solely in certain sections of New York City and other large metropolitan centers among the poorest classes of people and particularly among recent immigrants. "Groceries on Wheels," "Mototerias," "Groceterias," and "Rolling Stores," which have developed by degrees during the last fifteen years, are found more often in medium-sized cities, suburbs of large cities, and in small towns. Some of these traveling retail stores are marvelously ingenious in design. Adequate provisions are devised for display, examination of goods, and sales to consumers.

The peddler with the pack on his back has now all but disappeared in America. The pushcart peddler may continue in existence as long as the densely populated ghettos and other foreign districts in our large cities persist. The horse and wagon peddler is fast disappearing, but the rolling retail stores of the palatial types described above may, if not prevented by adverse legislation and taxation, will continue to grow into important factors of retail distribution.



**Canvassing.**—Order taking, rather than peddling, is a natural development in the sale of certain types of commodities and services which cannot readily be carried in stock by the vendor when calling on consumers. Furthermore, order taking has largely displaced peddling in this country through a technicality of legislation and legislative interpretation. Peddlers may be regulated and controlled by local license and tax systems while canvassing may not. Such taxes are levied on peddling in most communities throughout the country.

Many varieties of goods are sold directly to consumers by canvassing. There are certain classes of goods which, if they are to be sold at all, must be sold in this way. There are, of course, many lines sold by canvassers that are also sold through dealers. Among the goods and services for which it is claimed that most advantageous distribution may be obtained by direct canvassing methods are sewing machines, musical instruments, electrical apparatus, iceless refrigerators, high-priced works of art, books, encyclopedias, magazine subscriptions, life insurance, and securities. In general, all commodities requiring specialized selling or specialized service in connection with selling are apparently best distributed by direct methods.

**Classes of People Engaged in Direct Selling.**—There is a greater variety of people engaged in direct selling than in any other form of distribution. There are both men and women of excellent business ability who are engaged in direct selling as a life's occupation. They have an established place in the business. Most of these are the employees or agents of well-

INTENTIONAL SECOND EXPOSURE

Figure 58. A Rolling Store
Reproduced by courtesy of *Chain Store Age*.

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Pushcart vending prevails almost solely in certain sections of New York City and other large metropolitan centers among the poorest classes of people and particularly among recent immigrants. "Groceries on Wheels," "Mototerias," "Groceterias," and "Rolling Stores," which have developed by degrees during the last fifteen years, are found more often in medium-sized cities, suburbs of large cities, and in small towns. Some of these traveling retail stores are marvelously ingenious in design. Adequate provisions are devised for display, examination of goods, and sales to consumers.

The peddler with the pack on his back has now all but disappeared in America. The pushcart peddler may continue in existence as long as the densely populated ghettos and other foreign districts in our large cities persist. The horse and wagon peddler is fast disappearing, but the rolling retail stores of the palatial types described above may, if not prevented by adverse legislation and taxation, will continue to grow into important factors of retail distribution.



**Canvassing.**—Order taking, rather than peddling, is a natural development in the sale of certain types of commodities and services which cannot readily be carried in stock by the vendor when calling on consumers. Furthermore, order taking has largely displaced peddling in this country through a technicality of legislation and legislative interpretation. Peddlers may be regulated and controlled by local license and tax systems while canvassing may not. Such taxes are levied on peddling in most communities throughout the country.

Many varieties of goods are sold directly to consumers by canvassing. There are certain classes of goods which, if they are to be sold at all, must be sold in this way. There are, of course, many lines sold by canvassers that are also sold through dealers. Among the goods and services for which it is claimed that most advantageous distribution may be obtained by direct canvassing methods are sewing machines, musical instruments, electrical apparatus, iceless refrigerators, high-priced works of art, books, encyclopedias, magazine subscriptions, life insurance, and securities. In general, all commodities requiring specialized selling or specialized service in connection with selling are apparently best distributed by direct methods.

**Classes of People Engaged in Direct Selling.**—There is a greater variety of people engaged in direct selling than in any other form of distribution. There are both men and women of excellent business ability who are engaged in direct selling as a life's occupation. They have an established place in the business. Most of these are the employees or agents of well-

established concerns or are in business for themselves. Direct selling is their profession.

Then, there is a large constantly changing group of individuals who, as a result of the attractive proposals made by direct selling concerns, have been drawn into this field to make the personal experiment with this line of work. It is well known that a very large percentage of those who go into direct selling quickly drop out. After a short trial, the large majority of such entrants conclude that direct selling is not the field for them.

Next, there are large numbers of house-to-house canvassers and peddlers who devote but a portion of their time to this kind of work. Men and women, otherwise engaged in seasonal occupations, sometimes fill in their slack periods with direct selling activities. Many housewives supplement the regular household incomes, whatever they may be, by means of additional earnings gained through direct selling; still others look after the direct sales of certain goods, such as subscriptions to periodicals, from year to year for a small nearby group. These part-timers devote varying amounts of time to direct selling, and it would be difficult even for a government census to determine, as of a certain date, how many persons there are in this classification.

There are also considerable numbers of young men and women who are students in high schools and colleges who use their spare time as well as their vacations in direct selling work. Certain highly successful and well-established direct selling companies specialize in the employment of direct sales people of this type. At the close of their educational work they usually give up direct selling and go into other lines of business.

Finally, there is, in the aggregate, a great deal of house-to-house selling carried on through children, boys and girls in school, as well as adults who are physically handicapped for other kinds of work and who use this business as a means of securing at least a partial livelihood. Counting children's street trades, such as newspaper selling, as a form of direct selling,



there is, of course, a very large number of persons who give some part of their time to this work.

**Extent of Direct Selling.**—Direct selling is by no means the most important method of distribution of goods to the consumers, but it is nevertheless responsible as an outlet for a very considerable value of goods. During periods of peak activity in direct selling, it has been estimated that there have been more than 500,000 men and women engaged in this work. There are probably not less than 300,000 persons employed, either full or part time, in house-to-house selling at all times. A mailing list concern has accumulated a list of the names and addresses of 80,000 persons engaged in the work of direct selling. The list is certainly incomplete. To make an accurate list of the number of direct salespeople would be very difficult. The character of the work and the rapid turnover of people engaged in direct selling makes even a rough estimate a difficult matter.

It is estimated that the total sales volume resulting from direct selling methods for the year 1925 amounted to about $600,000,000. This estimate includes sales by canvassing or order taking only, and does not include the volume of goods sold by peddling. There are no estimates available as to the total amount of goods sold by peddlers.

In the trial census of industrial purchases and sales made by the U. S. Bureau of the Census in Cleveland, Ohio, for 1927, it was brought out that for manufacturers of food and kindred products with outfits valued at $100,000 or more and amounting to a total of $99,232,914, 10.84% of these products were sold direct to consumers. Excepting meats and other packing house products, sales of other food products amounting to 18.61% were made direct to consumers. Probably some of these goods were sold by canvassing as well as by peddling methods.

The year 1925 probably represented a high level of activity in direct selling. Many of the outstanding concerns whose products are distributed by direct selling have been able to progress

in sales volume since that year, but many others have failed to do so, and there are indications that there may have been an actual decline in the number of direct selling companies. In view of these circumstances it is probable that the total volume of sales by direct selling methods has not increased since 1925. It may, in fact, have declined somewhat.

**Examples of Well-Known Direct Selling Companies.**—Several companies that distribute their products directly to the consumer have risen to national prominence. Several have leaped into prominence since 1919.

Among the best-known direct selling concerns, the following may be mentioned. The Real Silk Hosiery Company came into existence as a direct selling organization shortly after the end of the World War. It is now reported to have over 10,000 agents scattered throughout the country and a sales volume in excess of $30,000,000 a year. This organization of agents operates under the direction of about 250 branch managers. More than 7,000,000 retail sales are made per year.

The Fuller Brush Company came into existence in 1911, but its sales did not reach $1,000,000 a year until 1918. Since 1923, according to reports available, its sales have averaged about $15,000,000 a year. This company employs about 6,000 agents selling a complete line of "45 different brushes for 69 uses." The sales territory of the United States and Canada is divided into five sales divisions. These are in turn divided into 45 districts and subdivided into 225 branches. Each branch manager supervises about 30 agents, and each agent has a territory with a population of about 10,000 people.

The Jewel Tea Company is a direct selling concern handling tea, coffee, chocolate, spices, and a general line of grocery products. This concern came into existence in 1900. Its sales for 1928 amounted to nearly $16,000,000. Its goods are sold through nearly 1,200 service salesmen or agents who operate in automobiles supplied by the company. The service salesmen



visit their customers twice a week, make delivery on orders received at the last visit, and take orders for the next delivery.

The J. R. Watkins Company of Winona, Minn., also distributes groceries and toilet goods in addition to a complete line of household remedies. This company is reported to have over 12,500 driver salesmen taking orders and delivering these goods to an amount estimated at about $20,000,000 a year.

The late Arthur Nash of Cincinnati, frequently called "Golden Rule Nash" because of his professed business policy of following the Golden Rule, developed a direct sale of low-priced men's suits from a beginning in 1916 up to a sales volume of over $14,000,000 in 1926. This concern has recently established a chain of retail stores, and since Arthur Nash's death there has been considerable reorganization.

Richman Bros., specializing in men's clothing at $22.50 per suit, sell both through chain stores and direct to consumers from house to house. In a period of a few short years this organization has developed a sales volume exceeding $20,000,000 a year.

The Aluminum Cooking Utensil Company, producers of "Wear Ever" aluminum goods, maintain an active, effective distribution of aluminum kitchenware through house-to-house agents as well as through retail stores.

The Larkin Company of Buffalo, New York, was described in the chapter on the mail order house.

Other concerns that have been highly successful in direct selling either as the sole means of distribution or in combination with other selling methods are the Hoover Company, manufacturers of suction sweepers, the Frigidaire Corporation, producers of iceless refrigerators, the Western Electric Company on its line of electrical household apparatus, and most of the automobile companies.

There are literally hundreds of concerns whose products are distributed wholly or in part through direct selling chan-

nels. There are said to be over 150 companies selling teas, coffees, and groceries by this method alone.

**Conditions Under Which Direct Selling Thrives.**—Wherever retail conditions are poor or unsatisfactory from the standpoint of consumers, wherever merchandising is bad, prices high, or service inadequate, there is a fertile field for the cultivation of direct selling. Wherever retailers are inactive or unaggressive, wherever they are backward in their appreciation of the trends of consumer demand, there the direct salesmen may reap a harvest of business from consumers.

Business depressions and slackness in employment, particularly among classes of people who can be taught how to sell from house to house, favor the growth of direct selling. Each of the periods of business depressions following 1873, 1893, 1907, and 1920 were accompanied by booms in direct selling extending for three or four years following. In each of these periods, direct selling companies found it easy to obtain salesmen from among the ranks of the unemployed. The necessity for earning something made them keenly interested in learning the technique of direct selling and of making something out of it. When business conditions improved and employment again became normal, many of these salespeople went back to their old lines of work and the increasing expense of keeping men and women at direct selling made much of it unprofitable.

Direct selling is usually more effective in medium-sized and small towns and in country districts than it is in the larger cities. It is as a rule easier for direct salesmen to find consumers at home and to reach them in the smaller places than in the larger centers. Direct selling is not impossible in the large apartment houses of the big cities, but is very much more difficult. There are often rules in apartment houses against solicitors or canvassers of any kind. People living in apartments are usually not at home as much of the time as those who live in houses and are not as good customers for many



kinds of goods sold direct as are house dwellers and house-owners.

The product to be sold must not only be suitable but its price must be such as to carry the sales expense of direct selling. There is a limit to the number of calls which a direct salesman can make in a day. Let it be assumed that direct salespeople can be employed to work for earnings averaging a minimum of $5 a day. If a salesperson so employed can make 20 calls a day, sales must result from those 20 calls yielding commissions or returns of not less than $5. If a sale is made as a result of 1 call in 4, then 20 calls should mean 5 sales, and each should produce $1 toward the salesperson's remuneration. There are very few products which can be sold through the regular channels of distribution, that will carry a salesman's expense of more than 20% or 25%. Specialties, little known and not limited by competitive prices in retail stores, may yield commissions of as high as 40% or 50%, but these are usually very difficult to introduce and sell to consumers.

In the sale of hosiery, men's caps, shoes, or other similar commodities in which there is active competition from other types of retail institutions, 20% or 25% is perhaps the maximum limit that may be paid out of the consumer's prices to the salesperson. A dollar per sale on a 20% or 25% basis means, therefore, that the total average sale must be not less than $4 or $5. If the average sale were only $1, and only 4 sales could be made a day, it is clear that the direct salesperson would soon be forced out of the work. The average sale, the possible number of sales, and the margin available for remuneration of the salesperson are, therefore, very important considerations in direct selling.

**Selling Technique.**—Direct selling is characterized by the exercise of arts of salesmanship that range from the poorest to the best in the world. Among those who engage in direct

selling may be found individuals whose efforts are crude and pathetic, bordering on the mendicant's whine, the "sob-stuff" plea of the beggar seeking charity. In some cases the offer of goods such as pencils, nail files, or novelties constitutes but a cloak for downright panhandling. And this is a business!

Others in the business of selling direct, through their high-pressure methods, come more nearly being highwaymen trying to coerce prospective customers into buying.

The reputation for dishonesty suffered by canvassers and peddlers with a great many people may be very unjust to the many who are honest, but, in many instances, is still deserved. There is no branch of selling in which it is so difficult to establish and to control ethical standards as in direct selling. There has undoubtedly been great progress in this respect, but there is much housecleaning yet to be done.

Proper selling technique is an exceedingly important factor in the success of direct selling. Dramatic, effective presentation is needed to overcome the very difficult obstacles found in this line of distribution.

The main difficulties of direct selling are, first, to get into the prospective customer's home to secure a hearing and, second, to secure the confidence of the customer in the proposition offered, and to overcome the feeling that arises almost invariably that "This is just another fake."

**How Direct Salesmen Get into Homes.**—Methods of securing a hearing have been given a great deal of careful attention by direct sellers and some very ingenious devices have been developed. Among these the following may be mentioned:

1. The offer by mail of a free gift to all who reply using an enclosed coupon or other form giving name and address. The free gift may consist of a box of soap chips, a small brush, a rubber sponge, a hand washboard, a spark plug, an aluminum dish, a memorandum book, an electric fuse plug, and so on.



The delivery of the gift is made by the salesperson, who uses his opportunity to get in with the gift to sell his regular line of goods.

2. Solicitation by mail or telephone offering free service or advice in connection with any equipment the home may already possess, such as electrical apparatus, sewing machines, refrigerators, heating plant, cooking equipment, and so on. The Jewel Tea Company, one of the largest and most efficient of the grocery houses engaged in direct selling, invites prospective customers to use the services of their representatives as coffee-making experts.

No method devised in modern times has proved so effective as a means of securing entry to homes as the offer of a free gift. The cost of the gift may not and usually does not exceed ten cents but the high proportion of sales resulting from calls made while delivering these gifts makes the expense of the gift a profitable outlay. Calling from house to house on a "cold canvass" without some such device as this and without acquaintance or introduction is in most cases a futile and discouraging task. Housewives are loath to answer their doorbells when strangers are calling or to admit them inside of their doors. Some device, as indicated above, to secure entrance is a very necessary part to the success of direct selling.

**Dramatic Demonstration.**—After getting into the prospective customer's house, the next problem is to secure the customer's interest. This, in many cases, is accomplished by some dramatic statement or method of presentation. Hosiery salesmen, who have been among the most successful during the past ten years, have used such demonstrations as drawing a nail file through the hose to indicate its strength and snag-proof qualities. Another demonstration intended to attract the interest of the prospective customer was to wrap the stocking around the leg of some heavy article of furniture, such as a piano, and then pull it around the room to indicate the tensile strength of

the hose. Other variations of this demonstration were to ask the customers to grasp the stocking at one end and let the salesman pull her out of her chair. Still another, the salesman would throw the stocking over a door frame and then support his whole weight therefrom.

Aluminum cooking utensil salesmen have effectively secured the interest of prospective purchasers by conducting cooking demonstrations not only for individual housekeepers but for parties. An arrangement is usually made with some housewife who agrees to invite a group of her friends for dinner. The salesman provides all supplies including meats, vegetables, and other foods, as well as the cooking utensils used in the preparation of the dinner. During the dinner party the salesman usually does no selling but gives a sort of running lecture on the use of aluminumware. He does secure the names of the persons who attend the party and later calls on them one by one and makes his sales.

Often the demonstrations used are of little meaning from the standpoint of the quality of the goods offered for sale. The nail file test or the heavy pull test on the hosiery leg mean little or nothing as to the wearing quality of the hosiery, for hosiery of almost any quality will stand these tests. Some of the older and more reliable hosiery companies in the direct selling business frown upon such methods. These companies are generally ahead of the procession of direct sellers by having new devices not yet used by their competitors. After entrance to the prospective customer's house has been secured, there is no type of demonstration that is so effective as a straightforward statement concerning the qualities of the goods, the service of the company to the purchaser, and the reasonable prices of the merchandise.

**Advertising as an Aid.**—Securing the confidence of the prospective customer in the merchandise and the proposition is another difficulty which the direct salesman must continuously



face. The customer may even be fully convinced of the desirability of the merchandise, but there may still be a lack of confidence in the salesperson and his proposition.

One of the means of making it somewhat easier to secure the confidence of prospective purchasers is the use of national advertising. A few of the larger and better-known concerns continually carry full-page display advertising in some of the leading consumer periodicals. This advertising makes it easier for the direct salesman not only by helping to pave the way to sales, but also helps in getting a hearing. The representative who introduces himself as from a company already known to consumers through advertising, is more likely to secure an openminded welcome than he would without such help.

National advertising is a method of securing the confidence of prospective customers which is, of course, open only to the larger concerns having a wide distribution of canvassers or agents. Local newspaper advertising has been widely used both by individual companies and by individual agents where national advertising could not be employed.

**The Partial Payment Plan as an Aid to Direct Selling.**—Another, and an entirely different method, the partial payment plan, helps to meet the problems of lack of confidence and, at the same time, serves effectively in closing sales where considerable amounts of money are involved. The partial payment plan applied to the sale of goods direct has been extremely useful.

The method of using the partial payment plan is somewhat as follows: after the merchandise has been demonstrated, the salesman who has a partial payment plan to offer, simply states to the prospective customer that she need not pay more than 20% or 25% of the price of the article at the time the order is given. The remainder may be paid on receipt of the goods. This device serves the purpose of reducing the risk or hazard in the customer's mind. It also serves another useful purpose.

Housewives do not always have on hand the full amount of the price of the merchandise ready to pay to the salesman. Even if she has the money available, it may not be convenient to make the full payment. The partial payment down saves the sale.

The amount of the first payment is usually the salesman's commission. He simply puts that amount in his pocket and then transmits the order to the company. The company then ships the goods by parcel post, C. O. D., and the postman delivers the goods, makes the collections, and returns the collections to the company. This system works admirably for all parties concerned. The salesman gets his commission at the time he completes his sale, the customer gets the merchandise soon thereafter, and the direct selling company has its cash in hand for all goods delivered within a short period, usually less than two weeks from the time the sale is made.

The partial payment plan with a C. O. D. delivery arrangement has been and is a part of the proposition of some of the most successful direct selling concerns in the country. It is doubtful that the conditions which were essentially so favorable for direct selling following the business depression of 1920-1921 would have produced such an important wave of direct selling as occurred had it not been for the ingenious devices perfected for securing entry to homes and for partial payments after sales had been made.

**The Value of Direct Selling Experience.**—Skilful salesmanship is the key to success in direct selling. Specialized training and experience are essential for those who are to make good in this field. House-to-house selling calls for the exercise of the real art of selling. Retail store salesmanship is very elementary in its requirements compared to direct selling. Whereas it takes but two or three weeks to train a salesperson to perform the routine work in department stores, efficient training for direct selling requires at least as many months. Direct salespeople must not only know their merchandise and how to demonstrate it, points which salespeople in retail stores should, but often do not, know, but must also become expert in gaining entrance to homes, in making dramatic demonstrations, in answering objections, and in closing sales.



The training in direct selling is an excellent experience for young men and young women who plan to enter business of any kind as a career. A great many well-known business people have at one time or another in their periods of training had some experience in house-to-house selling. Among these may be mentioned such men as Thomas A. Edison, Cyrus H. K. Curtis, Myron T. Herrick, Melville E. Stone, John B. Stetson, and William Wrigley, Jr., as well as many individuals high in politics and professions. Hoover and Brenhouse

**The Importance of an Efficient Sales Force in Direct Selling.**—It will be clear from what has already been stated about direct selling that the main difficulty is the maintenance of a skilled, efficient sales force. Keeping up an effective sales organization in a direct selling concern is an exceedingly difficult matter. Nearly all direct selling organizations experience a very high turnover of men. In the best of them there is a turnover equivalent to that found in retail department stores amounting to from 50% to 100% per year, and there are successful direct selling organizations in which the turnover of salesmen is 300% or 400% per year. In the magazine subscription business, publishers find it necessary to try to keep in touch with from 20,000 to 40,000 canvassers in order to keep from 1,000 to 1,200 actively at work.

Most direct salespeople are easily drawn from one proposition to another. A very high percentage do not last with any concern for more than a week or two. Very few of those who go into direct selling make it their life's work. One of the oldest and best established of direct selling concerns employing 6,000

agents has at any time less than 1,700 who have been with the company more than one year.

As a consequence of the problem of keeping up a staff of effective direct salespeople, the personnel work in a direct selling concern is not only of first importance but also very difficult. New salespeople are generally secured by advertising in specialty salesmen's periodicals, in the want ad columns in metropolitan newspapers, or in local newspapers in small towns. Several direct selling concerns have found that want ads in small-town papers are the most fruitful. A very large proportion of successful direct salespeople come from the smaller rather than the larger cities.

Direct salespeople are also recruited through the help of present members of the sales staff.

An examination of the advertising done by direct selling companies to secure salespeople indicates a common tendency to overstatement and exaggeration. Such advertising is usually full of unqualified promises of "Big money," "Chance of a life time," "Astounding earnings," and so on. If these methods are necessary to get salespeople, they are also probably responsible, in part, for the high turnover.

Direct selling companies that have merchandise which may be sold during the summer vacations, utilize college students to a considerable extent, but not every direct salesman who comes to the consumer's door and represents himself as a college student is by any means actually such. One of the common difficulties of direct selling suffered by all reputable companies is the widespread activity of imposters, and the difficulty of catching and checking them.

**Methods of Payment.**—Direct salespeople are, in the vast majority of cases, paid a commission on their sales rather than flat salaries. Commissions, as already indicated, vary from as low as 10% up to 40% or 50% of sales. Commissions of from 20% to 30% are common. Usually direct selling companies



also make provisions for additional bonuses payable to salesmen who secure sales above certain quotas. Most direct selling companies require salesmen to make advance payments to cover samples. Where this is not done and where the samples are of considerable value, references are required and carefully checked up. Salesmen who make collections as well as sales, are, of course, regularly bonded.

**Training.**—The training given to direct salesmen varies enormously. Many of the smaller companies and concerns marketing goods of low value do little more than issue an intensive correspondence to induce enthusiasm and urge effort. Other concerns have carefully prepared manuals giving the information about the merchandise which they would like their salesmen to convey to prospective customers. Still other companies employ thorough educational methods using teachers, demonstrators, practice training, and careful supervision. The earliest sales schools in the country were those established for the training of direct salespeople.

**Expenses of Direct Selling.**—House-to-house selling is not an economical form of selling. It is effective because it concentrates on one or a few lines and because it is aggressive. The first and most important item of direct selling expense is the remuneration of the salespeople. This runs considerably higher for direct salespeople than for salespeople selling similar goods within retail stores. Next there is a high expense in conducting the personnel work of a direct selling company in the employment of new salespeople, in training, in directing, and in supervising. Some of the most efficient direct sales organizations state that there should be a supervisor and trainer, or head salesman, with supervisory responsibilities for every five or six salespeople. These supervisors or trainers are in turn usually subject to branch managers. Branches are usually grouped under district organizations. Then there are the expenses of

conducting the general office, advertising, and other activities of the home office of the company.

It is, of course, not claimed by direct selling organizations that their selling expenses are lower than the expenses of selling through the regular channels of trade. Direct selling is limited to the sale of the single item or few items carried. Companion or suggestive sales are generally out of question. It is not possible to build up a very solid goodwill such as enjoyed by a store. Direct salespeople do not find their prospective customers in a mood to buy. The mood must be induced or created. Customers who call at stores, however, generally come ready to buy. Direct selling in many companies is handicapped by having no provisions for credit.

The advantages of direct selling lie in the possibilities of securing a market for goods which the other channels of distribution find it difficult or impossible to handle, or to find an outlet for goods when the dealers in the regular channels of distribution may have declined to handle them as the producers feel they should be handled. Direct selling, as indicated at the beginning of this chapter, serves wherever highly specialized salesmanship, aggressive presentation, and unusual services are essential to sale.

**Antagonism Toward Direct Selling.**—Direct selling in all forms, particularly when successful, is usually very irritating to local retailers who are permanently located and who maintain retail stores. Many efforts have been made by such retailers through their associations and otherwise to curb the activities of direct sellers. In spite of the fact that special legislation against direct sellers has repeatedly been found unconstitutional, nearly every state in the union, at one time or another, and in some states, several times, has passed laws for the regulation and control of direct selling. The efforts to try new laws are perennial.

The expressed objects in legislative activity to curb direct



selling vary. In some cases, regulations accompanied by high taxes on direct selling are urged as a means of equalizing the burden of taxation as between itinerant and local merchants operating in stores. In other cases, the purpose of restricting the activities of direct sellers is said to be for the protection of the people and the prevention of fraud, of which direct sellers are frequently reputed to be guilty. Probably the main object of nearly all efforts to restrict house-to-house distributors is to check their competition and to favor local merchants.

Peddling has been very generally controlled and curbed by law. Legal restrictions may be enforced against peddlers but not against canvassers, particularly if the latter represent concerns located in other states. Attempts to control or regulate canvassing have, in the opinions of the highest courts of the land, been held as local or state interferences with interstate commerce which is expressly prohibited by the Federal Constitution. Canvassing or order taking, when carried on for concerns located in other states, in the language of the courts, constitutes interstate commerce, and persons so engaged are not subject to local requirements for licenses or special taxes such as imposed by state laws or municipal ordinances.[2]

"Whatever the state may see fit to enact with reference to a license tax upon those who act as drummers for houses in the state, it cannot propose upon those who act as drummers for business houses outside of the state and who are therefore engaged in interstate commerce, any burden by way of a license tax." [3]

The efforts made by states and municipalities to curb direct selling in the interests of retail dealers with stores and permanent locations, has resulted in vigorous taxation measures against peddlers, but all efforts so far attempted have failed to affect the freedom of the order takers. As a consequence, many concerns that might otherwise have their goods peddled from

[2] See Real Silk Hosiery Mills *v.* City of Portland, 268 U.S. 325. Also Brennan *v.* Titusville, 153 U.S. 289.
[3] From Brennan *v.* Titusville, 153 U.S. 289.

house to house make provision for distribution by means of order taking for later delivery. Thus the law adds to the expense of direct distribution by making two calls necessary for each transaction, the first at which the order is taken and the second to make delivery. Selling and delivering at one and the same time is illegal. Selling on the first visit and delivering at a second visit is legal.

Various devices and subterfuges have been employed by municipalities to obtain some controlling grip over direct selling. In some instances the effort has been made to require direct salespeople to procure health certificates before being permitted to carry on business. In another case lists of citizens have been prepared based on requests alleged to have been made to have the police prevent canvassing and peddling. Direct salespeople have thereupon been notified by the police that they might not call on the people named in the lists. Most of the efforts made by local retailers to curb direct selling have either turned out to be illegal or useless. Furthermore, direct sellers have secured the help of the courts against municipalities that have attempted to interfere with direct selling. Such interference has in more than one case been deemed a felony and the municipal authorities held liable for damages.[4]

There is, at the present time, no legal curb for direct selling. Retail dealers who feel aggrieved at the success of direct selling within their communities have no legal recourse against direct sellers unless they, the direct sellers, are using illegal or dishonest methods. Where such methods can be proved, the Better Business Bureaus or other business organizations may usually take prompt action against both individuals and their employers.

The uselessness and mischievousness of attempting to control so important a channel of distribution as direct selling by legal prohibition, is a lesson that should by this time have been thoroughly learned by all who are interested in the retail field.

[4] See Scott *v.* McDonald, 165 U.S. 58.



At the present writing, direct selling is not disturbing American retailers at large to any very great extent. Since passing the peak of the wave in 1925, direct selling has probably only held its own ground, while regular retailers have found other ways and means by which they might more successfully meet this new competition.

It is not impossible, however, that there may be in the future other waves of direct selling. If retailers are not wiser than they have been in the past, there will likewise be waves of efforts to curb direct selling by recourse to legal methods. It would seem better wisdom for retailers to study the conditions that favor the development of direct selling, the strength and the weakness of direct selling as a method of distribution, and to meet the competition of direct selling by direct business methods. Running to the legislatures and to the courts for help whenever pinched by competition is a habit too widely practiced by American business men. It may well be borne in mind that both sides can play this game, and in the long run direct sellers might conceivably secure just as much help from legislators and courts as the regular retail dealers. A better method, not only from the standpoint of retail trade itself, but for society as a whole, would be to make a real business test in each case to see what methods of distribution can actually serve customers most effectively. In the long run, that system which offers merchandise and service which consumers most desire at the lowest prices is best and should win.

# CHAPTER XI

## MISCELLANEOUS FORMS OF RETAILING

**1. Industrial Retail Stores.**—Industrial retail stores, sometimes called company stores or commissaries, are found in the mining areas throughout the country, in lumbering towns and in connection with many industrial plants. They are regular retail stores maintained to serve the employees of the companies operating them.

As early as 1923, Prentice Winchell[1] estimated that the total sales of company and industrial stores of these types could not be far from $1,000,000,000 a year. Since 1923, Louis Stilman, editor of *Industrial Retail Stores Magazine*, and others have estimated that the sales through these stores exceed $1,250,000,000, and that the trend and volume of sales is steadily upward. In 1928, there were said to be more than 10,000 industrial retail stores in the United States serving over 17,000,000 people with food and clothing.

In former years industrial retail stores confined their merchandising to crude necessities of the working people employed by their companies. The stores themselves were generally forbidding-looking buildings, and equipment was of the roughest sort. With rising wage levels and growing standards of living, these retail conditions could not be continued. Industrial-town people had discovered ways of securing merchandise from competing institutions, such as the chain stores and the big mail order houses. Some of the chain store systems have apparently planned the locations of many of their stores to get this trade.

The recognition of this change in consumer demand is

[1] *Printers' Ink Monthly*, November, 1923.





producing a veritable revolution in methods of retailing among industrial retail stores. Such stores have been and are being modernized and remodeled at a very rapid rate. New buildings are being constructed, and methods of operation such as those used in highly successful chains and independent stores are being introduced. As a result, the industrial retail stores are able to hold not only the trade of their original customers, the employees of the companies with which they are connected, but also to draw trade from other people in the surrounding country. Sales volume has apparently gained appreciably year by year.

**Methods of Organization.**—In most cases, industrial retail stores are owned by the companies with which they are connected and are either managed by employees of that company, or by a professional store manager working either on a salary or on some bonus or profit arrangement and subject to the supervision of the company. Some industrial retail stores are operated as departments of the company, others as branches of company mutual benefit associations. In the latter case, any profits earned are turned in to the mutual benefit association funds. In a few instances they are even operated under the direction of committees made up of both employees and representatives of the company.

Sales by industrial retail stores are usually made at prices that are fixed as nearly as possible to cover the costs of the goods and expenses of operation. A recent study made by the National Industrial Conference Board among a considerable number of such stores found that more than three-quarters of them come out just about even at the end of each year.

The volume of sales transacted in some of the individual concerns places these institutions in a class with large metropolitan department stores or important chain store organizations. There are individual industrial stores with sales amounting to several millions of dollars and there are groups

of stores whose volume would be envied by many well-known chains. The H. C. Frick Company stores located in West Virginia and Pennsylvania, with buying offices in Pittsburgh, have an annual volume of $25,000,000.

A representative group of industrial retail store organizations have united in a national association which holds annual meetings at which the live problems of modern retailing are as fully and as interestingly discussed as in any other retail trade association.

**Ford Commissary Stores.**—One of the most interesting and spectacular developments in the industrial retail store field was the establishment of commissaries in Detroit, by Henry Ford, for his employees, in 1914. These retail stores for a number of years served employees solely, but in the fall of 1926 they were thrown open to the general public and attracted so much trade and consequent attention that retailers in Detroit and elsewhere started an uproar of protest threatening to boycott Ford delivery trucks and automobiles and to urge others to do the same. Whether this may have been the cause for Henry Ford's change in policy is not known, but sales of the Ford commissaries to the public ceased in April, 1927, and the entire business was closed up in 1928.

During the peak of their activity, that is for the year 1926, the total sales volume of the Ford commissaries in three plants amounted to $12,000,000.

The Ford idea of merchandising seems to have been to supply convenience goods such as groceries, meats, drugs, and staple items of apparel and footwear. Purchases were generally made directly from manufacturers or producers. Expenses were kept to a very low figure. During the six months' period ending December 31, 1926, the rate of expense on the sale of groceries and drugs amounted to 6.8%, on meats 8%, on shoes and dry goods 7.8%. The average expense on all items amounted to 7.3% of sales.



Labor costs were very low in these commissaries. Sales employees were kept very busy by the lines of customers almost constantly waiting to be served. Risks and markdowns were generally eliminated by confining sales to staple goods. There was never any advertising other than the free publicity given by newspapers and the goodwill of the name, Henry Ford. A very high merchandise turnover of almost once per week was secured.[2]

In spite of the remarkable growth and apparent success of the Ford commissary stores up to the spring of 1927, after they were closed to the public the interest, even of the employees of the Ford company, also declined. It was also stated that during the spring and summer of 1927, very active competition sprang up not from independent retailers but from new chain stores established in the vicinity of the Ford plants.

**2. Army Post Exchanges.**—Another very interesting and, at the same time, highly efficient and successful type of commissary stores is the U. S. Army Post exchanges, numbering about 150, located in government army reservations. During the World War, at the time of the opening of cantonments for the great numbers of newly enlisted men, their number for a time rose to over 300. The Army Post exchanges exist for the purpose of selling such goods as are not supplied by the government to soldiers and officers and their families.

The development of the Army Post exchanges has been extremely interesting, and a brief account will be presented. Beginning during the War of 1812, permission was given by the U. S. War Department to private business men, known as sutlers, to establish shops for the sale of merchandise to the officers and soldiers in the army. The sutler system continued from 1812 to 1866. The sutlers established, owned, and managed the army canteens. As there were few or no regulations, particularly at the beginning, prices were uncontrolled, and in

[2] Joseph E. Shaefer, in *Harvard Business Review*, April, 1927.

some instances exorbitant profits were extorted. Other evils such as liquor selling proved a constant irritation as well as a menace to the discipline of the army.

In view of the many difficulties with the sutlers a change was made in 1866, and army post traders were appointed to take charge of the canteens. In the years immediately following this innovation, the army post traders established themselves on all of the government reservations, particularly on the western frontier where many troops were then stationed.

No advantage, however, was gained by the change. High prices and liquor selling continued. Graft on a large scale stalked in. In 1876, a serious scandal arose when it was found that a brother of President U. S. Grant had been an important beneficiary of graft collected from post traders. W. W. Belknap, Secretary of War, who had likewise received large sums of money collected from the post traders, was impeached for this reason on March 2, 1876. These scandals resulted in the elimination of army post traders.

Gradually there developed, more or less spontaneously, cooperative post exchanges started by soldiers and officers in the various camps. This somewhat irregular, spontaneous development continued from 1880 to 1889 when these exchanges were given official standing; and in 1892 the War Department officially designated post exchanges, and in 1904 ordered their establishment in all army posts.

The present system of army post exchanges has been highly standardized and is centrally controlled from Washington. Careful accounts are kept of each post exchange and all accounting systems are uniform, so that operating costs and other facts are regularly compared. Any deviations or variations from normal are quickly detected.

Post exchanges make sales on a cost-plus basis, that is, prices are fixed at a point to cover the costs of the merchandise plus the estimated costs of operation. Each post exchange must pay for its store and equipment. After it has met these obligations and cleared its indebtedness it may declare dividends. These are usually expended for various forms of recreation for the enlisted men such as shows, concerts, entertainments, and so on.



The army post exchanges are, according to all information available, very efficiently conducted and give very satisfactory results to all concerned. They handle numerous lines of goods, but for the most part these are of staple nature. There is very little depreciation. Operating costs are considerably lower than in private business organizations conducted in the regular way in the outside business world.

**3. U. S. Navy Commissary Stores.**—The U. S. Navy commissary stores do for the navy what the post exchanges do for the army. Eighteen such stores, established at various navy yards, serve 109,000 persons in navy employ, and in 1927 did a business of over $50,000,000. These stores supply naval officers and men, and under certain conditions are open to officers and enlisted men of the army.

Among the many classes of supplies carried in the navy commissary stores are groceries, milk, vegetables, navy uniforms, clothing, notions, blankets, perfumes, imported goods, hardware, china and glass, sporting goods, small arms, music, and radios. More than 1,000,000 candy bars are sold yearly through these outlets.

The Bureau of Supplies and Accounts in Washington is the purchasing headquarters for the navy stores. All goods are purchased according to specification and are subject to careful tests and inspection. Credit accounts are carried in the navy commissary stores, and settlements are effected by deducting the amounts due from the pay of the officers and men who trade there.

**4. U. S. Canal Zone Stores.**—The United States Government also conducts a chain of 11 retail department stores in

the Panama Canal Zone, through a subsidiary organization, the Panama Railroad Company. In the year ending June 30, 1924, these 11 stores had sales amounting to $7,324,203, and the cost of doing business was reported to be only 10% of sales.

The Panama Canal Zone stores carry very complete lines of merchandise including not only groceries and cold storage products but also dry goods, clothing, home furnishings, shoes, and so on.

Since these stores serve the families of the employees of the government in the Canal Zone, much more stress is placed upon having proper assortments of goods for home use and such as purchased by women than in the case of the army post exchanges. The Canal Zone stores enjoy a large volume of business in fashion goods purchased not only in the United States, but in France and other parts of Europe as well.

A part of the service of a Canal Zone store is to secure for its patrons whatever goods they may desire, whether it be a used piano from the United States, a diamond ring from England, or a silk dress from Paris.

Inventories are taken monthly and stock control systems are effectively used. Expenses are low because of the low labor costs. Colored salesmen, most of them from the West Indies, are employed and are paid from $42.50 to $75 a month. Purchasing is largely done through New York and New Orleans offices in the same way as it is done through the resident offices of chain store organizations.

These stores are not allowed to sell other than to the canal employees, army and navy personnel and families.

**5. Exclusive Sales Agencies.**—An exclusive retail sales agency is a retail outlet under agreement with a manufacturer or wholesaler to enjoy exclusive sales privileges on a given commodity or service within a certain territory. In some cases this agreement includes the conditions that the retailer must not sell competing lines, in other cases, the seller agrees simply



to limit the sale of the product to a certain number of dealers within a certain territory.

The agreement between the seller and the retailer may be and often is, simply an understanding arrived at orally between the seller and the dealer. In other cases, the oral understanding is supplemented by an exchange of letters. Usually, however, the exclusive agency agreement takes the form of a formal contract sometimes known as a franchise and sometimes as a license.

The agreement, when drawn up in contract form, specifies in writing all of the conditions such as the rights of the dealer to exclusive sales privileges in a definite territory and the responsibilities that accompany such rights. It also states the services that will be rendered by the seller in the way of supplying goods, advertising, price protection, terms, and discounts.

Usually the contract specifies some minimum amount which the dealer is expected to sell per year. The seller usually reserves specific rights to change prices whenever necessary but may grant the agent certain concessions such as limited period price guarantees, rebates on old stock bought at higher prices, or other similar provisions. If the particular merchandise to be sold is of such character as to require service after the sale, the conditions of the performance of this service are also made a part of the contract. Exclusive agency contracts are drawn up in a formal way partly as a means of having a record of the understanding, partly as a definite means of indicating in black and white what is expected of each side, and partly as a means of impressing the dealer with the value of his franchise. Both the practical and the psychological values are important.

The commodities frequently marketed through exclusive agencies include automobiles, pianos, phonographs, radios, household furniture, electrical appliances, farm machinery, men's and women's clothing, hats, shoes, hosiery, paints, and varnishes. Exclusive agencies are usually used in the sale of heavily advertised and branded goods. Other classes of goods

in which exclusive agency arrangements are infrequently or rarely found include groceries, druggists' sundries, toilet preparations, underwear, lower-priced jewelry, auto accessories, and so on.

Note may be taken, however, that even within the fields in which exclusive agencies are found, there is always a large volume of merchandise distributed without agency arrangements.

Exclusive agencies are usually employed by sellers when their commodities are such as to require a high degree of salesmanship and service, when relatively high-priced, and when subject to keen competition and wide consumer shopping. A great many of the higher-priced lines of goods in which fashion is a factor are marketed on the exclusive agency basis.

Another important reason for the establishment of exclusive agencies is the desire to control the conditions of resale to consumers, and particularly to prevent or eliminate unrestricted price-cutting such as might prove disastrous to the future market of the commodity. In order to secure wide distribution in a hurry, the exclusive agency is sometimes offered as a selling argument. Dealers are more likely to give prompt, favorable decisions on handling desirable articles if allowed exclusive sales privileges than if the goods are to be offered to all dealers. An article in a field in which there is much competition may not be of any interest whatsoever to a retailer if he knows that the same article is to be sold by other retailers in his community, but if allowed an exclusive sales privilege he may see the opportunity of developing the market and earning a fair profit return therefrom.

The usual immediate result of an exclusive sales agency policy is a low unit selling expense for the manufacturer. The retailer is benefited by the assurance that any demand that can be aroused for the commodity will be filled at his store and that the commodity upon which exclusive sales privileges are



granted to him may even help to increase sales in accessory or supplementary lines used with the commodity.

Under an exclusive agency method of distribution it is usually possible for the dealer to carry a more representative line of sizes, colors, styles, or varieties of the commodity than would otherwise be practicable. This benefits the manufacturer as well as the retailer by giving the line a better opportunity for display and sale to consumers.

The question of consumer prestige and its value often arises in connection with exclusive sales agency arrangements. The small, little-known dealer who secures an exclusive agency for a well-known, wanted product certainly gains something from handling the product. In this case the product has more prestige than the dealer. Similarly, the seller who secures a powerful, well-known dealer to handle his product aggressively gains sales prestige from the dealer. When manufacturers sell to new dealers it is a common practice to give the names of well-known dealers already carrying the line as a means of inducing the new dealer to take on the line. A combination of a good product, well-known, handled by a strong dealer, is the ideal sought by most manufacturers.

There are, however, disadvantages in exclusive agency arrangements for both vendors and dealers. From the standpoint of the vendor, ultimate distribution and sales volume are limited by the activity of the exclusive sales agencies. As a result, national advertising that may be carried on by the manufacturer, fails to secure the full returns which it might obtain, were the goods sold in every possible outlet. Exclusive sales agencies do not have the stimulus of competition to drive for sales volume that retailers have who enjoy no privileges. There are frequent instances in which the exclusive agent devotes the major part of his attention and ability, as a distributor, to other lines upon which he is having competitive difficulties rather than to the line upon which he has exclusive sales privileges.

Furthermore, there are very few dealers who can command the patronage of all customers in their community. A manufacturer who markets through exclusive agencies usually finds that there are many doors closed to sales, for the reason that there are always prospective customers who will not or do not care to trade with the particular dealers who are the manufacturer's agents.

Other retailers handling competitive lines usually select for their most vicious competitive attacks those goods sold through exclusive agencies. Exclusive agency policies invite active substitution.

The dealer who becomes an exlusive agent likewise suffers some handicaps. The prices paid for commodities sold in this way are sometimes higher and profit margins lower than on goods bought in the open market and handled by all classes of dealers. The exclusive agency arrangement usually requires the dealer to carry fairly heavy stocks which may well be overstocks in many cases. The control exercised by the vendor over the sales policies of the agency may likewise hamper the agent's freedom and growth. Finally, there is also the possibility that the agency may be withdrawn.

There is no point upon which American retailers are more sensitive than the difficulties they have or may have had with manufacturers for whom they have developed an important sales volume and goodwill, only to lose the account because of some difference in opinion. A change like this makes it necessary for the retailer to begin all over again with some new line.[3]

**6. Leased Departments.**—Leased departments are, of course, not recent developments. Some of the earliest department stores, it is believed, began by having several small retail

[3] An excellent study of the exclusive agency as a factor in the distribution of manufactured products may be found in a report issued March, 1923, by the Bureau of Business Research of New York University, entitled, The Exclusive Agency, A Study in the Marketing of Manufactured Products.



stores owned by different people conducted under the same roof. The Royal Exchange in the sixteenth century, the prototype of the modern department store, referred to in Chapter III, was evidently made up of 200 or more leased departments or independent shops. Dealers leased spaces or stalls within the building from which they conducted their business. Public markets, both ancient and modern, particularly when operated under a roof, have usually been divided into sections or stalls, each of which is leased or rented to individual producers or dealers.

In the middle of the nineteenth century, at the time department stores came into existence, leased departments began to come into notice. The concern, L. Straus & Sons, back in the 1870's and 1880's, conducted a crockery, china, and glass business and had leased departments in several retail stores. Among these stores was R. H. Macy & Company then located at Sixth Avenue and Fourteenth Street. Later, Nathan and Isidor Straus, sons of the founder of the crockery, china, and glass business, acquired the entire R. H. Macy store, which is still owned by the sons of Isidor Straus.

One of the outstanding retail institutions of the country entirely conducted on the leased space plan is the Leiter building occupied by the Leiter stores in Chicago. This building, which occupies a location just outside of "the Loop" was formerly occupied by a large department store, Siegel-Cooper & Company, which failed. The present arrangement appears to be successful.

**Present Status of the Leased Department System.**—Leased departments are found in a wide variety of retail stores. Many grocery stores have leased meat departments and fruit and vegetable departments. Many drug stores have leased tobacco departments and soda fountains. Dyeing and cleaning agencies occur as leased departments in many types of retail institutions. Leased shoe departments are frequently found in

men's clothing stores and jewelry departments in women's specialty shops. A very large proportion of the department stores throughout the country have some leased departments.

The leased department system has been subjected to at least three recent studies.[4]

In the *Women's Wear* survey, 58 stores out of a total of 84 questioned reported leased departments. In this study, there were 254 leased departments in the 58 stores, and in Miss Averill's study there were 341 leased departments in 88 stores. From the information presented in these reports, and from such other study as has been given to the subject by the writer, it is believed that considerably more than one-half of all department stores throughout the country have one or more leased departments and that the system of leasing is growing at the present time.

**Lines of Merchandise Carried in Leased Departments.**—All of the leased department studies agree that millinery departments are more frequently leased than any other. The opinion was expressed in the U. S. Domestic Commerce Division report on department leasing, that in cities of from 35,000 population and up fully one-half of the millinery sold is distributed through leased departments. Beauty parlors and barber shops come second, shoe departments third, followed by candy departments, optical departments, pattern departments, restaurants, and luncheonettes.

A wide variety of merchandise is sold through leased departments. There are numerous leased departments in furs, women's apparel, boys' clothing, and other classes of ready-to-wear. Books and stationery, circulating libraries, jewelry, umbrellas and canes, floor coverings, furniture, musical instruments, sewing machines, wall paper, washing machines,

[4] A. L. Bush, Department Leasing in Retail Stores, Domestic Commerce Division, U. S. Department of Commerce, 1925; A Survey of Leased Departments, made by the Store Promotion Section of *Women's Wear Daily*, 1927; Grace J. Averill, Survey of Leased Departments, Terms and Contracts, National Retail Dry Goods Association, 1928.



phonographs and radios, picture and frame departments, cut flowers, pets and birds, occur frequently as leased departments.

**Leasing Systems.**—Departments may be leased to individuals, manufacturers or leasing syndicates. Numerous departments in such lines as restaurants, barber shops, cut flowers, bakery goods, boot-black stands are leased to individuals. Manufacturers frequently lease merchandise departments in such lines as shoes, paper patterns, furs, furniture, electrical goods, and floor coverings. Syndicates that operate numerous leased departments, and which are veritable chain stores, although their outlets appear only as departments in other types of retail establishments, control the leased department millinery business and are found to a considerable extent in such lines as shoes, jewelry, women's apparel and accessories, beauty parlors, and optical goods.

Leasing arrangements are ordinarily covered by contracts which usually run for a period of a year. In most instances the contract is a regular leasing arrangement. In other cases, due to technicalities of state legislation, the department operator is granted a license instead of a lease. Licensees as a rule have fewer privileges than do lessees.

In return for the privilege of conducting a leased or licensed department, the retail store receives a rental which is sometimes a flat payment of so many dollars per month. In a few instances the payment is a percentage of the net profits earned. Usually it is a percentage of net sales, sometimes accompanied by a guarantee of a minimum monthly or annual amount.

The percentage rates on net sales paid by leased departments range from 5% to 30%. The average, however, is about 12½% to 15%. Phonographs and radio departments pay the smaller percentages. Apparel, millinery, and shoes average 10%, 12½%, and 15% of net sales. Some of the higher percentages are to be found among such lines as furniture, pianos, umbrellas and canes, pictures and frames, stoves, bakery goods, candy,

soda fountains, beauty parlors, optical departments, and photographic studios. In such departments the averages range from 15% of net sales upward.

**The Form of Lease.**—Typical forms of leases used both by retail stores and syndicates appear in the reports already considered. Such lease forms have also been published from time to time by the *Dry Goods Economist*. They are usually rather long and technical. They generally attempt to cover all possible contingencies that might arise in the conduct of the business.

In addition to the terms of the contract as to the amount of space granted, period covered, and consideration, it also sets up specific conditions regarding what services shall be provided and what expenses paid by the retail stores, and similarly what by the lessee.

The lessee is usually required to supply his own necessary fixtures and equipment, subject to the approval of the lessor, and the lessor provides not only space but heat, light, water, power, and janitor, telephone, elevator, and delivery service. If the store carries charge accounts the privilege of charge or instalment business is usually accorded to the lessee, but in some instances an extra percentage, such as 2½% on all net sales sold on credit, is added to the regular rental paid.

The contract usually specifies what advertising, window display, and interior displays the lessee shall have. Other provisions require the lessee to observe all policies and rules of the store as to hours of operation, methods of handling goods, methods of selling, and discipline of the store.

The lessee is also held liable for all damage done and for any liability originating with the lessee or his department to other employees, to customers, or the public. Almost invariably, under the terms of a lease of a department the business of the department must be conducted under the name of the retail store. Any goodwill developed, therefore, accrues to the store rather than to the leasing concern.



**Reasons for Department Leasing.**—The decision of retail dealers to lease space for one or more departments arises out of several conditions. Often when owners of retail stores decide to build new stores, provision is made for expansion beyond immediate needs. In order to obtain some return from unused space it is sublet for merchandising purposes. In other cases, established retail stores find it impossible to conduct certain departments successfully. This has often been the case on such lines as millinery, shoes, and apparel. Specialists understanding the problems of merchandising these lines can often handle them successfully on a leased basis. In some cases the retailer may desire to add a line of merchandise for its cooperative value to the rest of the store, but may not have within his own organization any one with the necessary education or experience for successful conduct of the new departments. Under these circumstances, the owner often turns to some one willing to undertake the establishment of the department on the basis of a lease. Occasionally, a department store manager may find an individual or concern with outstanding ability in the operations on certain merchandise lines, but unavailable as an employee of the store, so that it may seem profitable, even when the store's departments are operated successfully, to lease them with the view of securing even greater returns.

The difficulties that grow out of department leasing are such as disintegration of the central ownership and control of the store, the tendency, in spite of best-laid plans and specific contractual conditions, for the leased department to conduct its business by methods and on policies out of harmony with the rest of the store. On the other hand, department leasing has saved many retail store managers from the continuous operation of departments at a loss. Whatever is received in rental rates is in such cases pure profit over the store's own performance. Instead of a periodical net loss, the space devoted to such lines of merchandise shows some return even though it be but a modest rental rate.

**7. Retailing by Auction.**—The sale of merchandise by auction, at which the price is fixed by competitive bidding until the highest bidder becomes the purchaser, is an ancient method of disposing of goods. It was in use among the Romans long before the days of Caesar. Military leaders disposed of the plunder of war by holding auctions and the method continued during the Middle Ages.

Variations in the methods of conducting auctions have developed in different countries. The Dutch auction system reversed the bidding process by fixing the price so high that no one would buy and then making gradual reductions until some one would buy the goods. Another type of auction, said to have originated in France and known as French candle auctions, was conducted on another basis. When the highest bid was made by some prospective purchaser, a candle was lighted and for each following bid received higher than the ones preceding the candle would be extinguished and relighted again. On the final and highest bid the candle would be lighted to burn until self-extinguished. This method gave others, interested in the goods, time to consider the possibility of increasing their bids but, at the same time, placed a definite time limit within which the merchandise to be sold would pass to the ownership of the last bidder.

The auction system is assumed to give the freest play in arriving at economic values of standard merchandise. It provides for prompt disposal of the merchandise. Naturally, auction selling does not permit the calm consideration that most consumers wish to give to prices and values when buying their goods. An auction salesroom, crowded with customers under the effective presentation of the clever auctioneer, may sometimes be swayed like a mob instead of each individual acting in his own economic interest.

Auction selling has, in recent years, declined in use so that now it is almost entirely limited to the disposal of second-hand



household goods, bankrupt stocks of dealers' merchandise, farm equipment, art objects, and occasionally, real estate.

In addition to these fields of legitimate auction selling activity, there is a scattering of auction retail stores at which jewelry, watches, and bric-a-brac are disposed of by auction methods. Frequently this method of selling is accompanied by artificial and tricky methods of stimulating customer interest, such as exaggeration and dishonest descriptions of goods by the auctioneer, and the employment of individuals posing in the audience as customers stimulating deep interest in the goods offered, raising the bids made by bona fide customers in order to secure higher bids from them in return. Such auction selling is considered illegitimate, and is regulated and prohibited in many communities.

The success of auction selling depends in a large measure upon the preliminary advertising or announcements issued, but more particularly upon the skilful ability of the auctioneer, who describes and demonstrates the goods offered for sale, and then induces active competitive bidding for the purchase of the goods.

**8. Fairs and Exhibitions.**—Some centuries ago, the village or community fair was an important medium through which consumers obtained most of the goods which they had occasion to buy.

Fairs have declined greatly, but are still important in some communities in Europe and Asia. Public markets, however, are direct modern developments from the system of consumers' fairs, and, as stated in section 9 of this chapter, public markets are still highly important, particularly in the distribution of food products.

Fairs or expositions are now frequently held at which consumers' goods are exhibited largely for the purpose of advertising rather than to secure actual direct sales. Manufacturers and retailers often combine in holding annual "food

shows" at which great varieties of foods are exhibited, demonstrated, and sampled, resulting in increased interest on the part of consumers in new types of goods, new methods of food preparation, and so on.

Similarly, expositions of home furnishings, household electrical appliances, and consumer style shows help by education to formulate consumers' wants in these directions. Such expositions are not only held independently but also in connection with county and state fairs and constitute an important form of sales promotion whose effects are registered in later trends in consumer demand.

Commercial fairs are still held regularly in many centers for the purpose of wholesale selling to retailers. Among the most important wholesale fairs of international interest are the Leipzig Fair in Germany and the British Industries' Exposition in England. Smaller industrial fairs are held at numerous places in Europe. Most of these are held semi-annually or annually, for a period of from one to two weeks. Such fairs are attended by great numbers of retail store buyers.

American wholesale fairs, similar to the European exhibitions just described, include the furniture fairs, toy fairs, novelty goods exhibitions, and business equipment shows. Both dealers and consumers visit the automobile shows, motor boat shows, chemical expositions, electrical expositions, and ready-to-wear style shows.

9. **Public Markets.**—The public market is one of the oldest, if not the oldest form of marketing. It is a means of bringing producers and sellers in direct contact with consumers and buyers. Public markets, now a part of the general institutions of retail distribution in European countries, trace their origin to the dim mists of medieval times. The colonial settlements in America likewise established public markets very early. They were formerly outlets for all kinds of consumers' goods, including not only food products, but fabrics, clothing,



shoes, and home furnishings. More recently, the sale, through public markets, of nearly all classes of goods with the exception of food products, has greatly declined. In fruits and vegetables, meats, fish, dairy products, and groceries, the public market is still in many cities an important distribution institution.

**Types of Public Markets.**—The public market may be merely an open space, conveniently located within a city, to which producers and dealers haul their produce by wagon or truck, make their displays, sell their goods, and depart. It may be a street devoted to the marketing of produce, in which case it is usually called a curb market. It may be a building, or several large buildings, with divisions or stalls leased or rented to producers or dealers. The buildings may be substantial business structures equipped with heat, light, refrigeration, and so on, or they may simply be open sheds serving merely as a protection from the elements.

The true public market is, as its name signifies, publicly or municipally owned, but the term is also applied to market places and plants privately owned. Market squares and curb markets are, of course, in nearly all instances true public markets.

Public market buildings are usually found in the larger cities in the eastern part of the United States, particularly along the Atlantic seaboard. Open market squares and curb markets are forms of public markets frequently found in middle-western cities and towns. Public markets are mainly found in medium-sized and larger cities, that is, cities of 25,000 population and up. However, many communities much smaller have market squares and well-established curb markets. In some cities public markets are declining in importance, and in others they are not only holding their own but apparently gaining. There are no adequate statistics indicating the volume of business transacted through public markets.

**Expenses.**—Cost of living investigations, wherever and whenever made, usually point to the public markets as a means of cutting the costs of goods to consumers. The writer has seen no adequate statistics of the actual costs of marketing through public markets. The expenses of marketing in this way, considered in relation to the volume of sales, are probably quite low, but any fair comparison of this method of marketing with other systems of distribution must take into consideration the amount of time consumed by producers and others who bring their products to the markets and offer them for sale, as well as the amount of time used up by consumers who come to markets to make their purchases. If the value of this time expended in the marketing operation is low, then the total costs of marketing through this method must be rated as very low. If, however, producers and consumers have other methods of utilizing their time which command a value, then the enormous amount of time of multitudes of people consumed in the public marketing function may well put the expense of this method of marketing up among those with the highest costs.

**Advantages of Public Markets.**—The advantages usually urged in favor of the public marketing system of handling consumer goods are the possibility of securing fresh goods from producers with a minimum of handling and at relatively low prices. A community with a public market has also the means, if it cares to use them, of exercising an effective control over weights, measures, purity of products offered for sale, retail prices, and other technical details affecting producers and consumers. The merchandise in public markets is usually sold for cash. Conditions vary with the seasons, but in large, well-established markets, consumers may have the privilege of selecting from a very wide variety not only of kinds but qualities of merchandise.

The public market is also an almost ideal means of disposing of surplus quantities of goods as well as goods of sub-standard qualities. In a market in which producers and consumers come into actual contact, variations from standard qualities may be discussed and transactions effected, whereas through the regular channels of trade where prices and practices are based upon standard qualities, sub-standard goods can scarcely be sold at all.



Perhaps the most important value of the public market is that it provides an outlet, always available, for producers, through which to sell their products, and an additional institution for consumers in which to buy their goods. Under present highly competitive conditions, such as found in most communities in the United States, this point is not very important, but in any community in which retailers reach a position of power and dominance over their market, the public market offers an effective means of competition and corrective of possible monopoly.

**Disadvantages of Public Markets.**—In actual practice, many of the advantages urged for public markets do not materialize in any important way. In the first place, the goods sold in markets, by and large, are not usually very much cheaper than the goods which can be obtained from private dealers. The fact that private dealers are able to sell as cheaply as goods are sold in the public markets would seem to indicate that the expenses of handling must be about as high in the markets as in regular retail stores. Furthermore, public markets are usually noisome places, and in some cases dirty, dusty, and full of flies and other insects.

The administration of the power of control over markets is sometimes very lax; poor weights and measures and the sale of poor qualities of goods are more likely to occur in the public market than in an established dealer's place of business. Much poor-quality food is distributed through nearly every public market. Misrepresentation of qualities often takes place.

Consumers who patronize markets must be keen in observation and trading to get their money's worth.

One of the chief drawbacks of public markets is their apparent inherent tendency to drift into the influence and control of professional traders. Unless express efforts are made to keep dealers out, they soon gain control of the stalls or better locations and conduct their business in the public market in the same way as if they were running a regular retail store. Along with the entrance of professional dealers in the public market arise the dangers of secret cooperation with politicians and the municipal government, together with the possibility of graft for special privileges obtained in the market.

Public markets usually, though not always, offer little or no service, such as credits or deliveries, to customers. Customers who come to the markets must carry their purchases away with them in their market baskets, or in their cars, if they shop that way. The trends in consumer demand the country over, are apparently away from the careful shopping required in dealing in public markets and also away from carrying purchases home in market baskets. Multitudes of customers no longer have time or care to make their purchases in this way. Furthermore, the trends toward small apartment living, kitchenette cooking, and increased patronage of restaurants are additional reasons for the decline in interest in public markets.

In the place of the old-time public market to which producers brought their goods there is now a fairly general tendency toward general retail food stores, actual food department stores in which all kinds of foods purchased by the consumers may be had under one roof. Such food department stores are, as already mentioned, frequently called public markets. They are to be found in many of the leading cities of the country and according to all reports are showing rapid growth. They include departments for the sale of fruits and vegetables, meats, fish, shell fish, dairy products, bulk and



package groceries. There are several institutions of this type such as S. S. Pierce in Boston, Charles in New York, McCann's of Pittsburgh, Peebles' of Cincinnati, Tiedtke's of Toledo, Kamper of Atlanta, Tebbetts & Garland in Chicago, Wolferman of Kansas City, Pillot & Henke in Houston, and Young's of Los Angeles, whose sales are in excess of $1,000,000 a year. The number and importance of this type of market is apparently growing at the present time.

10. **Roadside Markets.**—The enormous amount of automobile touring on the main highways throughout the country has been accompanied by the growth of roadside marketing. Farmers with surpluses of fruit and vegetables, eggs, poultry, and other farm products, who live on these main highways, were the first to set up exhibits of their produce at the roadside and to obtain profitable results therefrom. This is an important outlet for goods for farmers whose farms are favorably situated near highways.

Many roadside markets more recently developed are conducted by dealers who often buy their produce in the wholesale markets of the city, ship or haul it out into the country again and offer it for sale at the roadside markets. The marketing of agricultural products in roadside markets is, of course, a minor form of distribution and probably amounts to but a fraction of the total sales made to automobilists in the form of "hot dogs," soft drinks, confectionery, and lunches in roadside stands. What originally began as a form of marketing by producers direct to consumers has now been largely commercialized and carried on by middlemen.

11. **Car Peddling.**—Another method of marketing fruits and vegetables and other forms of farm produce, occasionally used by enterprising producers or dealers, is to gather up a carload of such products in the area in which they are grown, transport them to other communities where not grown but where they may be sold. Sales are usually effected directly

from the car to consumers who carry or transport the goods to their homes in their own way. The car peddler, on completing all possible sales in a community, may find that he still has a considerable part of his carload of merchandise remaining. This is then shipped on to the next town where the same sales process is continued, and so on from town to town until the carload is disposed of.

Car peddling saves handling of the produce. The railroad companies charge the car peddler so much per day in the form of demurrage charges for all days in which the car is held up after reaching its destination. This charge is, however, usually lower than the expenses of handling would be if the goods were removed from the car and stored and sold from a warehouse.

Car peddling is insignificant as a general method of marketing. The appearance of a car peddler in a small community has the effect, however, of upsetting the regular consumer demand of that community for a period of several days, if not weeks. In consequence, all dealers handling such goods in a regular way are very much opposed to the competition of the car peddler.

**12. Parcel Post Marketing.**—Parcel post has, at various times, been urged as a means of bringing producers and consumers into business relationships at a low expense to both parties. Following the passage of the U. S. Parcel Post Law in January, 1914, in which rates were fixed on a zone basis, that is, in accordance with the distance of shipment, much agitation occurred, particularly among all groups interested in the marketing of agricultural produce, urging the use of parcel post as an important means of distribution of farmers' products directly to consumers in the cities. Farmers' organizations pushed the idea. The U. S. Department of Agriculture was deeply interested, and attempted to help the movement by the publication of bulletins for free distribution among both farmers and consumers on how to use the parcel post. The U. S. Post Office Department likewise gave its cooperation by inducing postmasters in different parts of the country to have the post offices serve as clearing houses to help people desiring to market or to purchase goods by parcel post.



Considerable interest developed in this method of marketing during the years from 1914 to 1916. Many experiments were made on the marketing of such farm products as butter, eggs, poultry, fruit, and vegetables. Many difficulties surrounded these experiments because of lack of knowledge on the part of producers on how to grade and pack produce for this form of shipment. One of the earliest bulletins published by the U. S. Department of Agriculture was "Shipping Eggs by Parcel Post," Farmers' Bulletin 594. This was followed by others such as "Suggestions for Parcel Post Marketing," Farmers' Bulletin 793, published in 1916, and "Parcel Post Business Methods," Farmers' Bulletin 1922, published in 1918. In the period of the World War and in the years since that time the subject has apparently received little public attention. Parcel post is still used to a limited extent in marketing certain specialties, but it has not resulted in any noteworthy change in the volume of goods distributed, nor has it made any apparent differences in the costs of marketing.

Some of the difficulties of this method of marketing that have been found include the building up of lists of steady customers. It has not been easy to make the contacts between customers and producers willing to trade with each other on a basis of mutual confidence. Most of the parcel post business has at all times been confined to producers who have dealt with friends, relatives, or acquaintances in the cities. Business relationships among entire strangers are not easily effected. Other methods of securing customers, such as advertising and direct mail, have generally been found too expensive to be profitable. Trial orders secured as a result of such publicity are often never followed by any regular business.

Most of the difficulties of marketing by parcel post have arisen out of differences in opinions as to the qualities of the produce, fair prices, and methods of settlement. There have also been serious problems in effecting continuous sales by parcel post due to variations in production on the farms and to variations in wants of consumers in the cities. Very few, if any, producers are able to supply any type of farm products continuously throughout the year to consumers, and very few, if any, consumers desire to have produce in stated amounts delivered week in and week out throughout the entire year. These variations in supply and demand tend to upset the system.

Costs of suitable shipping containers constitute another expensive problem. In some cases empty cartons are returned to the producers, and in others they may be thrown away. The return of the container by parcel post adds to the difficulty of the consumer who ordinarily must carry the container to the post office and give the necessary shipping instructions for its return.

As a result of the experiments in parcel post marketing, the producers have discovered that consumers are not willing to pay such high prices for farm produce as may have been believed. Consumers in their turn have learned that the prices obtained by farmers for farm produce are usually higher than indicated by the vivid accounts sometimes published in the newspapers and magazines of the wasting farm produce awaiting a market at any price.

As a method of distribution, considering such factors as the time and expense in effecting business relationships, transportation costs, time and labor in returning shipment container, and so on, parcel post marketing probably offers no saving as compared with distribution through the regular channels. Undoubtedly, there are some advantages in parcel post marketing such as securing produce that is absolutely fresh and of a certain quality or grade. With the improvement of general transportation and distribution in farm produce,



the use of refrigeration, careful packing and grading of the products, and other similar steps, the importance of parcel post steadily declined.

The parcel post system is used to a very great extent by dealers in making deliveries to their customers. In some communities, as for example, St. Paul, Minn., some years ago, the private delivery systems of the department stores were given up and all deliveries to consumers from these stores were made by parcel post. Generally, however, the parcel post system is used merely as a subsidiary method of delivery to customers who cannot be reached more economically through the regular retail store delivery systems.

**13. Automatic Vending.**—Coin-operated automatic vending machines originated in Europe. Probably the first of such machines to be used in this country were imported from England in 1888 to sell Adams Tutti-Frutti Chewing Gum. Their use spread gradually in the years following. Penny-in-the-slot machines for dispensing Wankesha drinking water were extensively used at the World's Fair in Chicago in 1893.

**Classes of Goods Sold.**—For several years following their introduction, these contrivances were used principally to sell penny goods such as chewing gum, chocolate bars, candies of various kinds, peanuts, and so on. During the past ten years the use of automatic vending machines has spread to many new lines of goods including cigarettes, matches, postage stamps, paper drinking cups, handkerchiefs, toothbrushes, toothpaste, shaving creams, sanitary napkins, and other varieties of notions, toilet goods, and druggists' preparations. They are also used in change-making devices.

The penny-in-the-slot principle has also been very widely used in weighing machines, in so-called fortune-telling devices, and in various other types of amusement apparatus such as phonographs, moving pictures, games of chance, freak shows,

and automatic playing musical instruments ranging from player pianos to full orchestras.

The principle of automatic vending has also been applied in the sale of gasoline, soft drinks, grocery products, perfume, milk in school lunchrooms, in shoe polishing, photomatons, and gas meters. A well-known chain of popular restaurants known as "Automats," sells all foods by this process. A washing machine manufacturer arranges with apartment house owners to place laundry apparatus in the basements of such buildings to be available to the tenants and operated for a certain length of time, say thirty-five minutes, for 25 cents. Vending machines have also been devised for the sale of newspapers and magazines.

Application of electric refrigeration has improved vending apparatus so that food products, soft drinks, ice cream, and ice cream pies may be dispensed through such apparatus. A vending machine has even been equipped with talking apparatus so that when each sale is completed the customer receives a cheerful "Thank you." Any attempts on the part of the customer to use the wrong coins or counterfeit slugs is met by a short speech from the talking apparatus uttered in injured tones directing the erring customers, "Please use good coins only."

**Extent of Use.**—There are probably several hundred thousand automatic vending machines in use. One company alone, The Auto Sales Corporation, at the end of 1927 was reported as owning and operating 165,000 machines. There have been some outstanding mergers of several small companies producing coin-operated machines, but there are still said to be more than 200 such manufacturers in this country. If the progress made in producing and placing of automatic vending machines in 1927 and 1928 continues at the same rate, it has been estimated that there will be more than 1,500,000 machines in use by 1933.



Estimates of the total sales of merchandise through automatic vending machines have been made indicating a volume of about $25,000,000 in 1927. The rapid introduction of many new varieties of vending apparatus applied to new lines of goods throughout 1928 and 1929 has led to estimates that the sales volume for 1929 may be nearly double the 1927 figure.

**Characteristics of Goods Sold by Automatic Vending.**—On examination of the lists of items sold through automatic vending machines, it appears that certain characteristics are necessary to successful merchandising by this method. Goods that require salesmanship or personal service, selection of styles or sizes, matching of colors, fitting or consultation as to use, cannot readily be sold through automatic machines. Such goods must be sold by salespeople. Standardized goods of standard dependable qualities put up in standard-sized packages, small bulk, and standardized low prices are some of the conditions desirable to automatic vending. Perishable goods are not easily adaptable to general sale in vending machines, although soft drinks, ice cream pies, sandwiches, cakes, pies, and so on, are under certain conditions handled in this way. For ordinary distribution of perishable goods, vending machines are out of the question.

Goods to be successfully distributed through automatic vending machines must be self-selling. Machines cannot sell what cannot be sold by salespeople. Customers must know the goods and have absolute faith in them. Low-quality goods, or goods of variable qualities have no place in vending machines. Advertising and public goodwill are essential to success. Some of the best-advertised goods are by that fact best adapted to this form of selling.

Almost all of the earlier machines were constructed for the sale of penny and five-cent goods. The machines were known as "penny-in-the-slot machines" and "nickel-in-the-slot machines." More recently, vending machines have been applied to

the sale of goods at higher prices such as 10 cents, 15 cents, 25 cents, and even 50 cents. Beyond this sum it is impossible to go. No method has so far been devised making it possible to use paper money in slot machines.

Despite the improvements in automatic vending machines in the direction of their use in the sale of higher-priced merchandise, automatic vending of 1-cent and 5-cent products still continues to represent the bulk of the business. Fifty-cent pieces are scarce, so that, while automatic vending at this price is possible, it usually does not pay. Articles sold at 10 cents and 25 cents have a fairly wide sale and may continue to show increasing sales.

One of the main difficulties encountered in the sale of 10-cent and 25-cent goods through machines is the temptation they offer to the unscrupulous to use slugs rather than coins. It is very difficult to make automatic vending machines that will detect and eliminate such counterfeits. There is very little temptation to use counterfeit slugs in 1-cent or even in 5-cent machines, but on merchandise selling for higher prices the temptation grows rapidly.

**Advantages of Automatic Vending.**—The advantages of automatic vending from the standpoint of the consumer are:

1. Convenience of location. The machines may be placed at most suitable points without regard to considerations of sales personnel. Vending machines may therefore be successfully used in places where retail shops would be out of the question.

2. The service of a vending machine is immediate. There is no time lost in waiting for sales clerks, for change to be made, or packages to be wrapped. The customer can make his purchases in his own way and at his own time.

3. Vending machines make it possible to buy goods at any time during the day or night, on Sundays and holidays.

4. Vending machines provide a strictly cash and carry type of service at minimum costs of handling.



The advantages of automatic vending from the standpoint of the manufacturer or distributor are:

1. The elimination of sales clerks, cashiers, wrappers, the use of sales checks, cash register, or tube equipment, delivery, charge accounts, records, errors, spoilage due to handling, dishonesty, returns, and exchanges.

2. Automatic vending, when carried on within retail stores, releases costly salespeople for more profitable activity usually with customers requiring higher-priced goods or more personal service.

3. Automatic vending utilizes space that cannot always be put to other profitable use. Modern vending machines are attractive in appearance and therefore aid in improving such spaces.

4. It maintains merchandise in better state of preservation by eliminating all handling before sale. Display is secured by showing a sample through glass, which, while it may not be handled, may be studied at leisure by the customer.

5. Automatic vending machines prevent pilferage of merchandise.

6. Automatic vending machines give the customer ample opportunity to look before buying. There is no sales pressure from insistent salespeople.

**Disadvantages of Automatic Vending.**—The main difficulties of automatic vending are:

1. Its limitations as to the types of goods that may be sold in this way. These limitations are apparently gradually changing. A much wider variety of goods is now sold through machines than formerly, and it may be presumed that this trend will continue.

2. Automatic vending gives no opportunity for salesmanship. Its use leaves no possibility for the suggestion or comparison selling which is found very profitable in many types of retail stores.

3. The use of automatic vending machines is complicated by the efforts of dishonest people to manipulate them by means of slugs and spurious coins.

4. Finally, these machines must work perfectly and be fool-proof. The automatic vending machine that fails to operate quickly destroys the confidence of the public in this type of apparatus, whether the amount lost by the customer is a penny or half-a-dollar. Perhaps one reason for the slow development of the use of automatic vending machines in prices above a penny or 5 cents is the fear that if the money is deposited the machine may not operate properly.

5. There is also a curious human tendency to stick things, such as matches, leaves, tin foil, buttons, toothpicks, pins, paper-clips, and so on in vending machines. These, of course, quickly close up the slot and prevent its use in the sale of goods, and a clogged machine is a total loss to its owners.

The highest type of inventive ingenuity is required to produce a vending machine that will work infallibly and at the same time stand such abuse as indicated in the preceding paragraph. They must also automatically provide against taking the customer's money if merchandise cannot be delivered. In some states there are laws requiring that the customer's money must be returned if the merchandise has been sold out. The contrivance must also be made as safe from vandalism and robbery as possible.

**Expenses of Automatic Vending.**—While automatic vending reduces certain retail expenses, as indicated above, it must not be assumed that these eliminations represent clear gains. There are other expenses which must be charged against the gross profits obtained from the use of these machines. Most important among these expenses is the first cost of the machines which, according to type and use, may vary from $20 up to $500 or more per unit. No matter how perfectly constructed they may be, all machines so far devised require mechanical



attention, upkeep, and care. They must be restocked with merchandise and the money collected and counted. Rentals must be paid for the space occupied by machines. Accurate records of production of the machines is also desirable as a means of checking operations and placing them where they will produce the most profit. On low-priced goods selling for a penny, 5, or 10 cents, operators of automatic vending machines insist that they must have a gross margin of 50% of sales in order to make their use profitable.

The sales per machine vary enormously in accordance with its location and the kinds of goods handled. Penny machines in good locations should sell from 75 cents to $1 per week, but there are instances in which sales even through penny machines run as high as several dollars per day. Vending machines used for higher-priced goods such as cigarettes, candy, and soft drinks produce $10 and even more per day.

The average sales through slot machines are very much lower. In a recent statement[5] it is indicated that among such fast-selling products as chocolate nut bars, average sales in large operations do not amount to more than 8 or 10 bars per day. On slow-moving merchandise such as handkerchiefs or collar buttons, sales may not average more than 8 or 10 per week.

Vending machines are most frequently used in railway and other public service stations, in trains, on busy street corners, and within retail stores. Their use has spread very rapidly in drug stores and particularly in chain stores. Nearly all of the important chain systems employ vending machines for the sale of penny and 5-cent commodities to supplement the sale of similar goods through their regular sales organizations.

**Automatic Vending Abroad.**—Automatic vending machines have a very wide distribution in European countries as well as in the United States and Canada. They are specially

[5] J. H. Stevenson, Automatic Retailing Corp., in *Printers' Ink Monthly*, July, 1929.

favored in Germany and are widely used in England, France, Switzerland, and elsewhere. In Europe as well as in this country, automatic vending machines are used for the sale of confectionery, matches, and gum, weighing machines and catch-penny amusement devices. Slot machines are placed mainly in railway and subway stations, in bars, cafés, motion picture theatres, tobacco shops, and amusement parks. In Germany, automatic vending machines have been developed for the sale of railway tickets as well as other commodities already mentioned.

There is another type of coin-operated machine that has extensive use in many countries, namely automatic "wheels of fortune," chance games and gambling devices. Formerly these were widely used in America but are now largely restricted under anti-gambling ordinances and laws.

**Methods of Distribution of Vending Machines.**—Distribution of automatic vending machines is effected in various ways. Some concerns make and operate their own machines, merely leasing the spaces which the machines occupy. Other concerns make and lease machines either at a stipulated amount per month or for a percentage of the in-take. There are still other concerns that make and sell automatic machines which may in turn be used for vending any type of merchandise which the buyers may desire. There is also a wide distribution of vending machines by manufacturers of certain commodities who supply the machines either without charge or at low cost to retail dealers on the condition that they are to be used solely in the vending of the specific goods offered by the manufacturer.

The use of vending machines is spreading in all directions. Altogether, the automatic vending machine has come to occupy an important place in the distribution of certain classes of goods at retail.

# CHAPTER XII

## PRESENT STATUS AND TRENDS OF RETAILING IN THE UNITED STATES

Authoritative, general statistical information on the retail trade in this country is not available, but certain details collected in isolated instances can be found. From such fragmentary studies a fair picture of the retail business can be constructed.

**Report of Massachusetts Bureau of Labor Statistics, 1899.**—The first public survey of the retail business made in this country, so far as is known, was prepared in Massachusetts in 1899, and published as a part of the report of the State Commissioner of the Bureau of Statistics of Labor on "Changes in Conducting Retail Trade in Boston since 1874." The investigation upon which this report was based was undertaken to determine the effect of the increase in number of department stores on the rest of the retail trade.

The people of Massachusetts, in common with the people of several other states, were at that time much agitated by the rapid growth of department stores, and feared that they might swallow up all of the retail trade. This was a period of great anxiety over the growth of trusts and big business. Several states were considering the advisability of legislation against department stores and such a bill was introduced before the Massachusetts Legislature during the session of 1899 and 1900.

The report of the Bureau of Statistics of Labor gave a very comprehensive account of retailing in Massachusetts and the position occupied by department stores in the retail system. The conclusion of the report was, quite reasonably, that there

was no reason to believe that the department stores would crowd the small stores out of existence.

**Massachusetts Trade Census, 1905.**—The first retail trade census in the United States was also taken in the State of Massachusetts according to a law enacted in 1904 and as a part of the regular decennial Census taken in 1905. Nearly every State in the Union takes a periodical census, but this was the first and, so far as is known, the only instance in which a state census has included retail trade.

The Massachusetts Census of Trade included statistics of the number of establishments classified into retail, wholesale, jobbing, commission, exporting and importing, when these stores were established, the number of owners, partners, and stockholders, the capital invested, value of goods sold, the number of wage-earners, the wages paid per week, the number of salary earners, and the salary paid per week.

That phase of the census dealing with wage and salary conditions in the Massachusetts report was excellent, but no effort was made to distinguish among the various kinds of retail stores according to the lines of goods handled, so that nothing but a total figure representing the volume of sales and covering all lines of goods was presented.

Some of the more interesting results which were shown in the Massachusetts Census of 1905 may be noted. Over half of the retail concerns in existence in 1905 had been established within the ten-year period preceding the census. There were 10 retail firms, however, out of a total of 2,945, which had been founded before 1770. There were 12,441 stores which sold food products. The average investment in each of these stores was $2,489, and the average annual sales $14,569. There was one food store for every 241 people in the state.

**Pennsylvania Annual Reports of Mercantile Business.**—Annual figures indicating the total volume of retail volume are available in one state, Pennsylvania. Under a law passed in



1899, an annual business tax is levied on the sales volume. In consequence, each retailer as well as wholesaler in the state must report annually under oath his total volume of net sales, on which he is required to pay a sales tax. The State Department of Internal Affairs compiles the statistics of retail trade showing the number of concerns and the total volume of trade by counties. These figures are not very helpful except as a guide to the trend of total retail sales in relation to population. In so far as the State of Pennsylvania may be considered typical and representative of the entire United States, annual purchases in retail trade either upwards or downwards in relation to population, may be of value in estimating similar retail trade trends throughout the entire country. The totals reported in Pennsylvania for 1920 to 1927 were as follows:

| Year | Per Capita Purchases at Retail | Number of Retailers | Volume of Retail Business |
|---|---|---|---|
| 1920..... | $231.98 | 138,178 | $2,022,902,290 |
| 1921..... | 286.27 | 149,414 | 2,496,236,250 |
| 1922..... | 257.35 | 154,003 | 2,244,092,224 |
| 1923..... | 274.39 | 156,434 | 2,392,694,915 |
| 1924..... | 310.27 | 168,471 | 2,705,549,710 |
| 1925..... | 293.44 | 169,556 | 2,734,193,620 |
| 1926..... | 303.46 | 176,451 | 2,827,504,880 |
| 1927..... | 321.20 | 184,497 | 3,027,167,190 |
| 1928..... | 319.40 | 190,710 | 3,010,213,230 |

**Federal Reserve Index of Retail Trade.**—Another source of information on the extent and trends in retail trade is the Federal Reserve reports on retail trade. The Federal Reserve Board, through its twelve district banks, began collecting statistics of retail trade in 1919, using figures secured directly from local stores in each district. Statistics of sales and stocks were sought and obtained from department stores. Chain store systems and mail order houses supplied sales only.

These statistics were obtained from only a few retail es-

tablishments at the start, but the number has been added to from time to time so that at the present writing a very fair sampling of each class of business is obtained. These statistics have been utilized in the preparation of an index number which is taken to represent trends in retail trade. By August, 1928, the Federal Reserve system had been successful in securing regular reports for the year 1927 from 560 department stores in 250 cities, with total annual sales over $2,000,000,000; 34 grocery chains with 29,433 stores and $1,359,371,361 in sales; 14 5 and 10 cent chains with 2,944 stores and $560,773,589 in sales; 5 apparel chains with 1,080 stores and $198,672,838 in sales; 13 drug chains with 938 stores and $120,222,701 in sales; 4 cigar chains with 3,471 stores and $110,119,595 in sales; 7 shoe chains with 625 stores and $43,183,331 in sales; 4 candy chains with 269 stores and $32,717,017 in sales; and 4 mail order houses with $562,765,581 in sales. These statistics are set up and presented to the public through the press monthly. They supply the best guide to changes in retail trade conditions that are available. Table 20 shows the Federal Reserve index and its trends by years from 1919, the year of its establishment, down to 1928.

TABLE 20. FEDERAL RESERVE INDEX OF RETAIL TRADE, 1919–1928
(100 = 1923–1925 average)*

| | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|---|---|---|---|
| Department stores | 78 | 94 | 87 | 88 | 98 | 99 | 103 | 106 | 106 | 108 |
| Chain stores: | | | | | | | | | | |
| Groceries | 45 | 66 | 59 | 69 | 85 | 97 | 118 | 143 | 174 | 208 |
| 5 and 10 cent | 53 | 64 | 66 | 74 | 88 | 99 | 113 | 125 | 138 | 150 |
| Wearing apparel | 36 | 52 | 59 | 64 | 83 | 98 | 119 | 149 | 189 | 225 |
| Drug | 64 | 78 | 79 | 82 | 93 | 98 | 109 | 126 | 143 | 166 |
| Cigar | 72 | 96 | 95 | 93 | 98 | 100 | 102 | 111 | 110 | 107 |
| Shoe | 76 | 91 | 86 | 86 | 93 | 101 | 106 | 113 | 115 | 125 |
| Candy | 53 | 73 | 75 | 77 | 93 | 101 | 106 | 114 | 119 | 125 |
| Mail order houses | 93 | 96 | 67 | 73 | 92 | 98 | 110 | 115 | 120 | 137 |

* Up to the end of 1927, the sales for 1919 were taken as the basis of 100. Beginning in 1928, the Federal Reserve Board changed its basis so that the average monthly sales for the three years, 1923–1925, were taken to equal 100.



The chief criticisms of the Federal Reserve statistics, if criticisms they may be termed, are, first, that the number of retail stores making monthly reports may not be large enough to supply a fairly adequate sample of what is going on in the entire American retail business. Second, there are no statistics for the individual lines of specialty goods such as groceries, drugs, hardware, shoes, apparel, and so on, other than those presented in the chain store figures.

Supplementary figures on wholesale trade, also presented by the Federal Reserve system, throw some light on the volume of distribution by merchandise lines through independent retailers. This will be discussed in a later section.

A third criticism of the Federal Reserve figures is that there is a strong probability that the stores reporting to the Federal Reserve system are generally the more successful institutions rather than those having difficulty with competition and in keeping their places in their respective communities. If this assumption is correct then it follows that the Federal Reserve index presents a picture of retail trade change rather more favorable than the average of actual conditions.

Fourth, the index of department store sales is weakened somewhat because of the fact that certain large and very influential concerns, it is understood, do not give their figures to the Federal Reserve banks at all.

Finally, the practice of holding special sales in department stores tends to throw the index for individual districts on any specific months considerably out of line. A gain in volume for any given month represented in the index is very often the result of a special sale in one or more stores. The effect is, of course, an abnormal stimulation of consumer demand.

In addition to the indexes of total sales and total stocks in department stores, the Federal Reserve also accumulates information on sales and stocks by detailed merchandise departments. Sales and stocks are reported each month in terms of comparison with the same month of the preceding year by

each of the twelve Federal Reserve districts and, in addition, are combined to form an average for the entire country.

From these tabulations it is possible to determine, so far as accuracy of the indexes permits, changes in sales trends and conditions of stock by major merchandise classifications in the department stores of the country. The main outlines of fashion changes may thus be effectually traced.

TABLE 21. FEDERAL RESERVE INDEX OF WHOLESALE TRADE, 1919–1928
(100 = 1923–1925 average)

| | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|---|---|---|---|
| Groceries (362 firms)..... | 118 | 126 | 93 | 93 | 100 | 101 | 99 | 98 | 94 | 95 |
| Meats (61 firms)..... | 145 | 121 | 80 | 83 | 94 | 96 | 110 | 115 | 108 | 113 |
| Dry goods (146 firms)..... | 100 | 107 | 91 | 89 | 103 | 97 | 100 | 94 | 89 | 85 |
| Men's clothing (13 firms)..... | 78 | 106 | 72 | 80 | 99 | 98 | 103 | 95 | 92 | 91 |
| Women's clothing (40 firms)..... | 93 | 95 | 84 | 90 | 109 | 97 | 94 | 70 | 68 | 62 |
| Boots and shoes (89 firms)..... | 140 | 125 | 99 | 97 | 104 | 98 | 98 | 101 | 104 | 98 |
| Hardware (186 firms)..... | 96 | 116 | 80 | 86 | 102 | 97 | 101 | 100 | 95 | 93 |
| Drugs (92 firms)..... | 91 | 95 | 86 | 87 | 97 | 99 | 104 | 107 | 108 | 113 |
| Furniture (87 firms)..... | ..... | ..... | 73 | 85 | 102 | 93 | 105 | 102 | 100 | 99 |
| Total, 1,076 firms.. Total sales, 9 lines. | 110 | 114 | 87 | 89 | 101 | 98 | 101 | 98 | 95 | 94 |

**Wholesale Trade Index an Indication of Volume Trends in Independent Stores.**—The various Federal Reserve indexes show clearly the trends of trade in all the principal types of retail stores excepting the individual or independent stores. There are no figures indicating just what is happening among these. The Federal Reserve Index of Wholesale Trade from 1919 to 1928, summarized in Table 21, shows for a limited number of firms for each of 9 varieties of wholesalers what the past and present trends are. The Index of Wholesale Trade



as represented in this table may be helpful in estimating the trends of trade in independent stores that buy most of their goods from wholesalers rather than directly from manufacturers.

The value of the Index of Wholesale Trade for the purpose of checking trends among independent retailers is minimized somewhat by the fact that wholesalers, very generally, particularly the larger ones, sell to chain stores and department stores as well as to independent, individual stores. There is no information available to indicate the extent of sales made to these special classes of retail stores. It probably varies greatly from concern to concern. It is believed, however, that a high percentage of the sales of wholesalers, the country over, is made to independent retailers. If this assumption is correct then the index figures provided by the Federal Reserve system may be interpreted as indicative of the trends of trade among independent retailers.

The sale of groceries among 362 wholesale grocery firms during the period from 1919 to 1928 followed an irregular up-and-down movement but, in the main, suffered a definite decline after reaching a peak in 1920.

The wholesale volume of the meat business, as reported by 61 firms, also suffered a decline, although some part of the losses occurring in 1921 and 1922 has since been regained.

Dry goods has suffered a decline in wholesale sales, as has also women's clothing.

Men's clothing, boots, and shoes and furniture have had an irregular sales movement from year to year without any definite tendency downwards, while the sale of drugs as reported by 92 firms has moved upwards during the period from 1919 to 1928.

Total wholesale sales for the 9 lines represented in the Federal Reserve figures indicate a fairly definite decline amounting to from 10% to 15% in the period from 1919 to 1928.

**United States Census of Occupations.**—The United States Census has never taken account of the retail trade of the country except to enumerate the number of persons engaged in the occupations of retailing. The statistics of occupations, however, offer an interesting side line on the development of retail trade not only as a whole, but also by specific lines. Comparisons of the census of occupations of one census year with preceding years is very interesting as an indication of social and business changes but there is, as has been pointed out by the director of the Bureau of the Census, considerable danger in making deductions too literally because of the lack of uniformity in classification of the occupations having to do with trade. For example: wholesale merchants were not separated from retail merchants until 1890, retail salespeople were counted as clerks and copyists up to 1890. In the censuses preceding 1910, no attempt was made to classify retail dealers in any detail. For example, in 1900 over 364,000 dealers out of a total of 790,000 were simply lumped together as not specified.

The Census of Occupations for 1910 and 1920 are, however, much more nearly comparable than any figures preceding and it is believed that from these reports a fairly accurate indication may be found as to the total number of retail dealers by lines of merchandise handled. The number of retail dealers, of course, does not correspond to the number of retail stores. In the census enumeration, two or more partners conducting a single retail business would be counted as separate retail dealers, and similarly a single dealer owning more than one store would be counted only once in the census. Whether these two classes counterbalance each other it is impossible to state, but judging from compilations of retail stores made from such works as Dun's and Bradstreet's credit rating books, it appears that the total number of persons enumerated as retail merchants and dealers corresponds fairly closely to the number of retail stores in existence at the time the census was taken.



TABLE 22. NUMBER OF RETAIL DEALERS IN THE UNITED STATES
(From U. S. Census of Occupations.)

| Dealers by Lines of Trade | 1920 | 1910 | 1920 % Gain or Loss over 1910 |
|---|---|---|---|
| Agricultural implements and wagons | 7,789 | 8,518 | − 8.6 |
| Art stores and artists' materials | 2,646 | 2,370 | 11.2 |
| Automobiles and accessories | 28,768 | 4,597 | 525.0 |
| Bicycles | 2,221 | 1,532 | 45.0 |
| Books | 3,035 | 3,118 | − 2.7 |
| Boots and shoes | 22,544 | 19,346 | 16.5 |
| Butchers and meat dealers | 122,105 | 124,048 | − 1.6 |
| Buyers and shippers of grain | 7,305 | 11,535 | − 36.7 |
| Buyers and shippers of livestock | 30,464 | 32,516 | − 6.3 |
| Buyers and shippers of other farm produce | 10,540 | 6,864 | 53.6 |
| Candy and confectionery | 40,091 | 29,538 | 35.5 |
| Cigars and tobacco | 19,141 | 17,728 | 8.0 |
| Carpets and rugs | 1,132 | 1,238 | − 8.4 |
| Clothing and men's furnishings | 46,653 | 35,273 | 32.2 |
| Coal and wood | 26,556 | 24,466 | 8.5 |
| Coffee and tea | 5,044 | 5,351 | − 5.8 |
| Crockery, glassware, and queensware | 1,618 | 2,508 | − 35.5 |
| Curios, antiques, and novelties | 3,353 | 2,735 | 22.6 |
| Delicatessen stores | 4,333 | 3,031 | 43.0 |
| Department stores | 11,752 | 8,970 | 31.0 |
| Drugs and medicines, including druggists and pharmacists | 80,157 | 67,575 | 18.6 |
| Dry goods, fancy goods, and notions | 63,909 | 65,283 | − 2.1 |
| 5 and 10 cent and variety stores | 5,968 | 4,331 | 37.8 |
| Florists (dealers) | 5,746 | 2,934 | 95.9 |
| Flour and feed | 9,309 | 9,469 | − 1.7 |
| Fruit | 23,385 | 19,000 | 23.1 |
| Furniture | 26,013 | 22,209 | 11.7 |
| Furs | 4,789 | 2,280 | 110.0 |
| Gas fixtures and electrical supplies | 4,420 | 1,526 | 190.0 |
| General stores | 80,026 | 88,059 | − 9.1 |
| Groceries | 239,236 | 195,432 | 22.4 |
| Hardware, stoves, and cutlery | 41,144 | 39,663 | 3.7 |
| Harness and saddlery | 2,706 | 7,541 | − 259.0 |
| Hucksters and peddlers | 50,402 | 80,415 | − 37.3 |
| Ice | 8,203 | 7,361 | 11.4 |
| Jewelry | 21,433 | 29,962 | − 28.4 |
| Junk | 22,749 | 15,219 | 49.5 |
| Leather and hides | 4,350 | 2,475 | 75.7 |
| Lumber | 27,687 | 27,250 | 1.6 |
| Milk | 13,104 | 14,694 | − 10.8 |
| Music and musical instruments | 7,909 | 5,222 | 51.5 |
| Newsdealers | 8,474 | 7,075 | 19.8 |
| Oil, paint, and wall paper | 6,577 | 6,818 | − 3.5 |
| Opticians | 12,032 | 6,284 | 101.0 |
| Produce and provisions | 34,473 | 29,639 | 16.3 |
| Rags | 2,024 | 1,975 | 2.5 |
| Stationery | 5,951 | 5,823 | 2.2 |
| Other specified retail dealers | 52,681 | 38,612 | 36.4 |
| Not specified retail dealers | 65,728 | 45,621 | 44.1 |
| Total | 1,328,275 | 1,195,029 | 11.1 |

Table 22 presents the essential facts of the censuses of 1910 and of 1920 as to the number of persons engaged in retail trade.

From the table showing the number of retail dealers in the United States according to the United States Census of Occupations, it will be seen that there are 49 classifications of retailers, including two general classes, "other specified retail dealers" and "not specified retail dealers." The total number of retailers gained 11.1% in the period from 1910 to 1920, but during the same period general population gained 15%, so that the number of retailers did not keep apace with the increase in general population.

The Census of Occupations for the preceding ten-year periods furnished an interesting bit of information as to the relation of retail trade to total population. While the statistics of the number of retail dealers are admittedly imperfect, as for example, inclusion of wholesalers with retailers up to 1880, still the general trend of the retail business, as indicated by the number of retail dealers, is revealed.

TABLE 23. RELATION OF NUMBER OF RETAILERS TO TOTAL POPULATION IN THE UNITED STATES BY CENSUS YEARS

| | Total Population in Millions | No. of Retail Dealers * | No. of Dealers per 1,000 Population * |
|---|---|---|---|
| 1850 | 23 | 174,000 | 7.56 |
| 1860 | 31 | 268,000 | 8.64 |
| 1870 | 39 | 358,000 | 9.18 |
| 1880 | 50 | 479,000 | 9.58 |
| 1890 | 63 | 691,000 | 10.97 |
| 1900 | 76 | 833,000 | 10.96 |
| 1910 | 92 | 1,195,000 | 13.00 |
| 1920 | 106 | 1,328,000 | 12.53 |

* Wholesalers included with retailers for censuses from 1850 to 1880 inclusive. Separate classification of retailers and wholesalers made for the first time in the Census of 1890.

Table 23 shows the relation of the number of dealers to population by census years from 1850 to 1920.

From the table just presented it will be seen that the number of retailers per 1,000 population increased progressively from 1850 down to 1890. In 1900, the number of dealers in relation to population as compared with 1890 remained practically stationary, but in 1910 there was a gain over both preceding census years pointing to a continuation of the trend of increase in the number of retailers noticeable throughout the preceding fifty years. In 1920, there was a slight decline in the number of retailers in proportion to population as compared with the number in 1910. It remains to be seen, when the 1930 census is taken, whether the decline occuring in the census of 1920 represents an actual tendency of decline or merely an accidental or temporary check in the growth of the number of retailers.



Of the 47 specified classes of retailers enumerated in the Census of 1920, 16 classes showed actual declines compared with the numbers enumerated in 1910, while 31 classes increased. The declines and increases in numbers of retailers as shown by the census point graphically to the changes in business and in public demand during this period.

Harness and saddlery dealers, as well as feed dealers, declined for the reason, obviously, that the use of horses was giving way to automobiles. In the same period of time the number of automobile dealers multiplied six times.

Buyers and shippers of livestock, milk dealers, and retailers of agricultural implements also declined, mainly because of the tendency to consolidation of many producing companies and the elimination of retail dealers and agencies as outlets for these products.

Jewelry retailers suffered a remarkable decline from 30,000 to 21,000 due largely, it is believed, to changes in fashion that occurred during the period of the World War, which reduced the use of jewelry for both men and women. Such jewelry as found a sale in 1920 was also largely distributed through department stores, mail order houses, and even the variety and 5 and 10 cent stores.

Book dealers, as all authors and publishers must regret, also declined, probably due to the increased volume of sales in this line by department stores. The decline in numbers of dealers in carpets and rugs, coffee and tea, crockery and glassware were also probably due to the expansion of the department stores in these lines and the inability of small retailers to compete successfully.

Another noticeable decline was in the number of hucksters and peddlers. This decline may perhaps be explained by the high rate of employment occurring in the early part of 1920 at the time the census was taken. Peddling is a function to which many people flock when other employment is not available and which many people leave when there is opportunity in other regular work. If this explanation is correct, then it may be assumed that when the depression which occurred a few months later took effect it is likely that the number of hucksters and peddlers increased again very much over the figures shown in the census.

Among the increases in numbers of retailers, attention has already been called to automobile and accessory dealers whose number multiplied six times in the ten-year period. Other large increases in numbers were shown by confectioners representing the increased consumption of sweets during the latter part of the period, by druggists representing the expansion of this branch of retailing into new lines such as cigars and cigarettes, soda fountains, luncheonettes, toilet goods, and novelties of many kinds. It is possible that the increase in drug stores may in part have been due to the elimination of saloons caused by the enforcement of the Eighteenth Amendment and the Volstead prohibition act.

The increase of over 40% in delicatessen dealers as against a 15% increase in population is strong testimony of the changes in ways of living taking place, particularly among city families, in this period. Opticians and furriers more than doubled while dealers in electrical goods tripled. Radio had not yet become a popular diversion at the time the census was taken in 1920. At the next census in 1930 we are certain to have a classification showing a large number of vendors of wireless apparatus.



Department store dealers increased from 8,970 in 1910 to 11,752 in 1920, or 31%. This is an increase that is difficult to explain on any other basis than that many dry goods and general merchandise stores in 1910 had changed to department stores by 1920. This view is supported by the fact that general merchandise dealers dropped from 88,059 to 80,026 and dry goods dealers from 65,283 to 63,909. It is quite certain that many of those lost in these two classifications were counted in 1920 as department store dealers.

Lack of any enumeration of retail dealers since 1920 makes it impossible to present anything but estimates of the number of retail dealers in this country since that date. It is probable, in view of the general prosperity of the country and the growth of population, particularly in the cities, that the number of retail stores has increased considerably. The chain store movement has, however, had the tendency to reduce the number of owner-operators. Just how this movement will affect the U. S. Census of Occupations total of retailers in 1930 is not easy to predict. It is fairly certain however, that the number of retail stores will be in excess of 1,500,000.

The U. S. Census of 1920, as indicated above, presented figures showing the number of retail merchants and dealers, but classifications of occupations, as affecting retailing, were so inadequately worked out that it is difficult to determine how many people were engaged in the retail business.

There were, according to the 1920 Census of Occupations, 1,328,275 retail dealers distributed among 47 definitely named classes and 2 others generally grouped under "Miscellaneous." In addition to the dealers, there were 413,918 "clerks in stores" and 1,177,494 "salesmen and saleswomen," 125,007 laborers, operators, and helpers in stores, 26,437 floor walkers, foremen,

and overseers, 170,235 delivery men, 8,853 decorators, drapers, and window dressers, 113,022 messengers, bundle and office boys and girls, probably half of whom were employed in retail stores. The total of these groups amounts to 3,363,241.

The modern store, however, employs many other classes of people not included in the classifications named in the foregoing paragraph. No separate classifications are made by the Census for persons in the retail trade who are accountants, stenographers, advertising writers, elevator operators, restaurant and lunchroom employees, janitors and cleaners, launderers and laundresses, barbers, hairdressers and manicurists, doctors, nurses, and welfare workers, detectives, and comparative shoppers. There is not even an enumeration of retail store buyers as such.

Then there are the numerous classes of employees engaged in the workrooms and alteration departments that form a part of nearly all large retail establishments selling apparel of all kinds, as well as jewelers, watch repairers, engravers, mechanics, painters, paper-hangers, cigar makers, cobblers, boot-blacks, upholsterers, etc. Certainly there are at least 100,000 employees of retail stores of these classifications, making the total engaged in the retail trade not less than 3,400,000

A number of border-line occupations might perhaps be counted as retailing. There are nearly 25,000 bakers in the country who sell at retail, but the Census counts bakers as manufacturers. Are the 28,000 newsboys retailers? Are the 25,000 undertakers retail dealers? Are movies and theatres retail institutions? Should barber shops be counted as retail places of business? What about the 150,000 odd real estate offices? And so on.

Even with the doubtful classifications omitted, it is clear that the total number of people engaged in the retail trade in 1920 was more than 3,400,000.

A comparison of the number in retailing with the numbers



engaged in the other leading occupations will show the relative importance of retailing to our national economic life. The number of people engaged in the leading occupations in 1920 were as follows:

| | |
|---|---|
| Manufacturing | 12,818,524 |
| Agriculture | 10,953,158 |
| Retailing | 3,400,000 |
| Transportation | 3,063,582 |
| Professional | 2,143,889 |
| Mining | 1,090,223 |
| Public service | 770,460 |

It will be seen from the above that retailing ranked third in order of importance from the standpoint of the number of persons employed.

**Statistics from Mail List Concerns.**—Unfortunately for our analysis of the present situation in the retail trade, the United States Census of Occupations offers no light on the other classifications of retail trade. Some light on the numbers of retail stores by types may be gained, however, from the information compiled by concerns selling mailing lists of dealers. For example: from such concerns as Boyd's City Dispatch, Buckley, Dement & Company, W. S. Ponton Company, and others, it appears that there are over 5,000 department stores of all ratings, but that of these there are only about 1,200 that are rated above $125,000, 408 over $500,000, and 216 over $1,000,000, based on Dun's and Bradstreet's credit ratings. There appear to be not less than 5,000 chain store systems in the country with a total of over 100,000 retail units. There are not less than 1,300 mail order houses of various kinds and sizes throughout the country, including concerns with mail order departments and doing a business of at least $100,000 a year or more. There are listed nearly 400 regular mail order houses of which 35 are large concerns. It has been estimated that there are about 8,000 company or commissary stores and probably about 3,000 consumers' cooperative stores in the country as of January 1, 1928.

**United States Trial Census of Distribution in 11 Cities, 1927.**—It is likely that the United States Census of 1930 will contain a great deal more information about retail trade than has ever been collected in any previous census. For a number of years there has been an insistent demand for more authoritative information on the distribution of goods. In 1925, the Chamber of Commerce of the United States authorized a study of distribution which was carried through by a series of conferences during 1925 and 1926.

Out of these conferences grew a demand that the government should take a regular census of distribution as well as of production. Since the regular census year would not come until 1930, it was agreed to make some trial or sample enumerations which would give the Bureau of the Census experience that would be helpful in the more general enumeration to be started in 1930.

There followed during 1927 such enumerations by the Bureau of the Census in cooperation with the Chamber of Commerce of the United States in 11 cities including Atlanta, Baltimore, Chicago, Denver, Fargo, Kansas City, Providence, San Francisco, Seattle, Springfield (Illinois), and Syracuse. While the census was taken in 1927, all figures were for the year 1926. These sample censuses covered both wholesale and retail trade. Detailed information was secured about nearly 94,000 retail establishments having a volume of retail sales amounting to 4,224,000,000.

Some of the most significant findings of this sample census follow:

Of the total number of retail establishments, 15.1% were chain stores and 84.9% independents, but 28.7% of the total business was done by chains and 71.3% by independents.

Twenty-seven per cent of all of the independently owned retail stores enumerated, or a total of 22,000 stores, had sales in 1926 of less than $5,000, or an average of only $44 a week, less than $8 a day.



The total volume of these 22,000 stores amounted to but 4% of a total of nearly 80% of the independent retailers who have an annual volume of less than $25,000 per year and who do only 15% of the total volume of retail trade. On the other hand, 40 stores out of the total number enumerated secure 16½% of the total business, averaging more than $10,000,000 a year each. About two-thirds of the entire volume of business done by independent stores is secured by only 5% of such stores. The large proportion of small retail stores was an outstanding fact in each of the 11 cities as was the large proportion of the total business done by a few large stores.

Chain stores report sales amounting to 28% of the total retail trade in the 11 cities with only 15% of the total number of stores. In individual cities the percentage of chain store sales ranged from 6.3% in Fargo, N. D., to 37.1% in Chicago. The high percentage of total business shown by the chains in Chicago raises the total percentage of chain business for the 11 cities considerably, for only one other city, Atlanta, Ga., showed more than 30% chain store volume. The remainder ranged from 22.6% down to 14.8%, except Fargo which had only 6.3%. The larger cities have the higher chain store percentages.

The sample census enumerated 46 different kinds of stores according to goods handled and 80 classes of commodities. In some lines in these 11 cities, chain stores sales bulk very high. In the sale of gasoline chain organizations handle nearly three-fourths of the entire volume. In the variety goods lines, such as handled by the 5 and 10 cent stores, chains likewise sell nearly three-fourths of the total volume. Over one-half of the shoes, including both men's and women's shoes, are sold by chains; between 40% and 50% of dairy products, eggs, and groceries are sold by chains; from 30% to 40% of automobiles, tobacco products, furniture, and house furnishings and millinery are sold through chains, and from 20% to 30% of all the coal, wood, and ice, confectionery, ice cream, soft drinks, drugs,

electrical goods, music, radio supplies, sporting goods, and leather goods are sold through chains.

Department stores enjoy about 15% of the total retail trade, while independent stores of other types secure 57% of the total volume in these 11 cities.

Great variations appear in the average amount of business done per store in the various cities, thus, shoe stores have an average sale of $28,000 in Baltimore but $70,000 in Kansas City. In all cities the average sales per chain store ran higher than the average sales per independent store in the same lines.

Disregard of all usual channels of distribution seems to be a common rule as shown by this census. Tobacco products and smoking supplies were sold not only in cigar stores but also in drug stores, candy stores, grocery and delicatessen stores, gas stations, department stores, general merchandise stores, restaurants, soft drink establishments, automobile accessory shops, bakeries, toy shops, shoe stores, men's furnishing stores, dry goods stores, fruit and vegetable stores, hardware stores, meat shops, and music shops. Grocery stores sell women's hosiery, shoe stores sell hats and caps, hardware stores sell books and stationery, and cigar stores sell men's furnishings. Men's furnishings are sold through 18 classes of establishments, furniture is sold through 19 different kinds of stores, women's outerwear is sold through 17 outlets, and boots and shoes are sold through 15 different kinds of stores.

While the trial census reports compared the retail volume with the estimated population of the cities in which the census was taken, it is probable that this comparison is of little value except in such products as are almost invariably purchased by consumers close at hand. Thus, the per capita purchases of groceries, meats, dairy products, and eggs are probably fairly representative of the extent of consumer demand in the cities in which the census was taken. But the sales of clothing, home furnishings, and automobiles can hardly be credited completely to the population in these 11 cities. All of these cities,



TABLE 24. SALES AND NUMBER OF ESTABLISHMENTS CLASSIFIED BY KIND OF BUSINESS FOR 11 CITIES

| KIND OF BUSINESS | TOTAL ALL STORES | | INDEPENDENT STORES | | CHAIN STORES | |
|---|---|---|---|---|---|---|
| | Number of Establishments | Sales | Number of Establishments | Sales | Number of Establishments | Sales |
| Art and antique | 508 | $ 11,952,600 | 185 | $ 11,237,000 | 23 | $ 715,600 |
| Automobile | 1,018 | 295,530,500 | 762 | 203,004,100 | 256 | 92,526,400 |
| Automobile accessory | 2,077 | 61,812,400 | 1,907 | 49,891,900 | 170 | 11,920,500 |
| Bakery | 2,666 | 63,903,900 | 2,418 | 56,674,300 | 248 | 7,280,600 |
| Book and shoe | 2,030 | 91,540,500 | 1,475 | 44,110,300 | 555 | 47,430,200 |
| Building material | 1,076 | 151,298,800 | 869 | 129,077,800 | 167 | 22,007,200 |
| Cigar and tobacco | 3,280 | 57,218,800 | 2,900 | 39,371,700 | 380 | 17,840,700 |
| Clothing and furnishing, men's ready-to-wear | 2,834 | 152,488,400 | 2,485 | 123,547,700 | 349 | 28,940,700 |
| Clothing, women's | 1,672 | 144,028,300 | 1,426 | 121,548,300 | 246 | 22,479,000 |
| Coal, wood and ice | 1,303 | 89,859,100 | 1,153 | 64,532,100 | 150 | 25,326,000 |
| Confectionery, ice cream and soft drinks | 6,677 | 64,814,300 | 6,289 | 46,842,600 | 388 | 17,971,700 |
| Dairy and poultry products | 1,692 | 46,135,800 | 1,572 | 40,698,300 | 30 | 5,437,500 |
| Department | 137 | 670,470,100 | 134 | 639,243,600 | 03 | 31,226,100 |
| Drug | 4,397 | 155,802,200 | 3,876 | 100,348,300 | 521 | 203,571,500 |
| Dry goods and notions | 3,292 | 89,835,700 | 3,105 | 82,437,400 | 187 | 46,543,900 |
| Electrical appliance and supply | 750 | 37,975,100 | 679 | 26,852,600 | 71 | 11,122,500 |
| Fuel | 1,016 | 22,492,900 | 950 | 19,390,400 | 66 | 3,012,500 |
| Fruit and vegetable | 2,700 | 30,187,300 | 2,280 | 32,743,700 | 420 | 3,443,800 |
| Fur and fur clothing | 1,354 | 26,541,000 | 1,326 | 19,179,000 | 28 | 2,415,000 |
| Furniture and housefurnishing | 2,844 | 265,357,100 | 2,458 | 197,957,000 | 386 | 67,400,100 |
| Gasoline and oil | 4,135 | 137,352,300 | 2,215 | 36,450,200 | 1,920 | 100,895,400 |
| General | 75 | 4,562,700 | 64 | 3,209,200 | 11 | 1,353,500 |
| Grocery and delicatessen | 20,886 | 488,599,000 | 16,500 | 286,767,800 | 4,386 | 201,741,200 |
| Hardware | 2,472 | 81,798,200 | 2,111 | 74,289,900 | 361 | 7,508,300 |
| Hat and cap, men's and boys' | 255 | 7,596,200 | 169 | 3,625,800 | 86 | 3,886,400 |
| Hay, grain and feed | 2,031 | 12,734,300 | 1,988 | 11,900,900 | 13 | 834,400 |
| Jewelry | 1,370 | 56,863,200 | 1,291 | 47,065,000 | 79 | 9,798,200 |
| Junk | 188 | 4,508,800 | 186 | 4,500,800 | 2 | 8,000 |
| Meat, poultry and fish | 5,712 | 169,912,100 | 5,222 | 145,708,900 | 490 | 24,203,200 |
| Millinery and artificial flowers | 1,107 | 22,136,800 | 881 | 13,973,800 | 226 | 8,163,000 |
| Motorcycle and bicycle | 158 | 1,012,700 | 114 | 1,540,800 | 4 | 71,900 |
| Musical instrument and sheet music | 555 | 42,476,800 | 479 | 26,530,400 | 76 | 9,935,400 |
| Office equipment | 439 | 36,446,600 | 401 | 27,412,200 | 38 | 5,034,000 |
| Optical goods | 252 | 8,439,000 | 230 | 7,325,100 | 22 | 1,113,900 |
| Paint, oil, varnish and glass | 577 | 17,305,200 | 547 | 14,594,700 | 30 | 2,710,500 |
| Photographic supply and camera | 107 | 2,157,400 | 97 | 2,015,700 | 10 | 141,700 |
| Plumbing and heating fixtures and supplies | 719 | 33,614,900 | 648 | 30,558,200 | 71 | 3,056,700 |
| Radio | 371 | 12,280,800 | 329 | 9,601,800 | 42 | 2,515,000 |
| Restaurants | 8,350 | 260,388,300 | 7,328 | 198,843,400 | 1,022 | 61,544,900 |
| Sporting goods | 151 | 5,047,600 | 128 | 3,810,600 | 23 | 1,237,000 |
| Stationery, book, magazine, paper and paper goods | 1,061 | 37,584,700 | 893 | 31,940,100 | 168 | 5,644,600 |
| Toy and game | 81 | 1,370,000 | 79 | 1,346,500 | 2 | 23,500 |
| Trunk and leather goods | 320 | 9,788,700 | 290 | 7,635,100 | 30 | 2,153,600 |
| Typewriters and calculating machines | 169 | 14,305,000 | 163 | 13,440,100 | 6 | 864,900 |
| Variety | 1,065 | 52,919,400 | 884 | 16,066,100 | 201 | 40,293,300 |
| Unclassified | 1,188 | 208,943,500 | 1,084 | 197,416,800 | 104 | 11,526,700 |
| Total | 93,928 | $4,224,109,100 | 79,778 | $3,011,090,300 | 14,150 | $1,213,018,800 |

TABLE 25. AVERAGE SALES PER ESTABLISHMENT CLASSIFIED BY KIND OF BUSINESS FOR 11 CITIES

| KIND OF BUSINESS | AVERAGE SALES PER ESTABLISHMENT | | NUMBER OF ESTABLISHMENTS (% of Total) | | SALES (% of Total) | |
|---|---|---|---|---|---|---|
| | Independent | Chain | Independent | Chain | Independent | Chain |
| Art and antique | $ 23,169 | $ 31,113 | 95.5 | 4.5 | 94.0 | 6.0 |
| Automobile | 266,410 | 361,431 | 74.9 | 25.1 | 68.7 | 31.3 |
| Automobile accessory | 20,163 | 46,591 | 91.8 | 8.2 | 80.7 | 19.3 |
| Bakery | 23,439 | 29,394 | 90.7 | 9.3 | 88.6 | 11.4 |
| Boot and shoe | 29,909 | 85,460 | 72.7 | 27.3 | 48.2 | 51.8 |
| Building material | 159,552 | 137,169 | 82.9 | 17.1 | 84.9 | 15.1 |
| Cigar and tobacco | 11,165 | 46,949 | 88.4 | 11.6 | 64.5 | 35.5 |
| Clothing and furnishing, men's ready-to-wear | 49,715 | 82,942 | 87.7 | 12.3 | 81.0 | 19.0 |
| Clothing, women's | 85,237 | 91,382 | 85.3 | 14.7 | 84.4 | 15.6 |
| Coal, wood and ice | 55,969 | 168,847 | 88.5 | 11.5 | 71.8 | 28.2 |
| Confectionery, ice cream and soft drinks | 7,448 | 46,319 | 94.2 | 5.8 | 72.3 | 27.7 |
| Custom tailors | 25,890 | 181,250 | 98.1 | 1.9 | 88.2 | 11.8 |
| Dairy and poultry products | 77,325 | 495,652 | 89.1 | 10.9 | 56.0 | 44.0 |
| Department | 3,823,317 | 11,974,794 | 86.4 | 13.6 | 67.0 | 33.0 |
| Drug | 28,212 | 89,330 | 88.2 | 11.8 | 70.1 | 29.9 |
| Dry goods and notions | 26,550 | 39,503 | 94.4 | 5.7 | 91.8 | 8.2 |
| Electrical appliance and supply | 39,547 | 156,655 | 90.5 | 9.5 | 70.7 | 29.3 |
| Florist | 20,411 | 45,644 | 93.5 | 6.5 | 86.6 | 13.4 |
| Fruit and vegetable | 14,361 | 80,830 | 84.3 | 15.7 | 90.5 | 9.5 |
| Fur and fur clothing | 58,831 | 86,250 | 92.1 | 7.9 | 88.8 | 11.2 |
| Furniture and housefurnishing | 50,126 | 174,612 | 86.4 | 13.6 | 67.2 | 32.8 |
| Gasoline and oil | 16,459 | 52,550 | 53.6 | 46.4 | 26.5 | 73.5 |
| General | 50,144 | 123,045 | 85.3 | 14.7 | 70.3 | 29.7 |
| Grocery and delicatessen | 17,380 | 45,997 | 79.0 | 21.0 | 58.7 | 41.3 |
| Hardware | 35,192 | 20,799 | 85.4 | 14.6 | 90.8 | 9.2 |
| Hat and cap, men's and boys' | 21,454 | 45,121 | 66.3 | 33.7 | 48.3 | 51.7 |
| Jewelry | 53,207 | 64,185 | 93.5 | 6.5 | 93.4 | 6.6 |
| Junk | 36,456 | 124,028 | 94.2 | 5.8 | 82.8 | 17.2 |
| Meat, poultry and fish | 24,198 | 4,000 | 98.9 | 1.1 | 99.8 | 0.2 |
| Millinery and artificial flowers | 27,903 | 49,394 | 91.4 | 8.6 | 85.8 | 14.2 |
| Motorcycle and bicycle | 15,861 | 36,119 | 79.6 | 20.4 | 63.1 | 36.9 |
| Musical instrument and sheet music | 13,516 | 17,975 | 96.6 | 3.4 | 95.5 | 4.5 |
| Office equipment | 55,387 | 130,729 | 86.3 | 13.7 | 72.8 | 27.2 |
| Optical goods | 91,077 | 148,813 | 91.3 | 8.7 | 86.6 | 13.4 |
| Paint, oil, varnish and glass | 30,501 | 64,086 | 91.3 | 8.7 | 83.3 | 16.7 |
| Photographic supply and camera | 26,681 | 90,350 | 94.8 | 5.2 | 84.3 | 15.7 |
| Plumbing and heating fixtures and supplies | 20,780 | 14,170 | 90.7 | 9.3 | 93.4 | 6.6 |
| Radio | 47,158 | 43,052 | 90.1 | 9.9 | 90.9 | 9.1 |
| Restaurants | 29,458 | 59,881 | 88.7 | 11.3 | 79.4 | 20.6 |
| Sporting goods | 24,378 | 88,597 | 87.8 | 12.2 | 66.4 | 33.6 |
| Stationery, book, magazine, paper and paper goods | 30,388 | 50,343 | 84.8 | 15.2 | 77.1 | 22.9 |
| Toy and game | 35,767 | 33,599 | 84.2 | 15.8 | 85.0 | 15.0 |
| Trunks and leather goods | 17,044 | 11,750 | 97.5 | 2.5 | 98.3 | 1.7 |
| Typewriters and calculating machines | 26,328 | 71,787 | 90.6 | 9.4 | 78.0 | 22.0 |
| Variety | 82,455 | 144,150 | 96.4 | 3.6 | 94.0 | 6.0 |
| Unclassified | 101,745 | 200,364 | 44.9 | 55.1 | 29.3 | 70.7 |
| Average | 182,119 | 110,834 | 91.2 | 8.8 | 94.5 | 5.5 |
| | $ 37.743 | $ 61,823* | 84.9 | 15.1 | 71.3 | 28.7 |

* Adjusted average.



TABLE 26. CHAIN AND INDEPENDENT ESTABLISHMENTS

(U. S. Census of Distribution, 1927.)

| City | Number of Retail Establishments | | | Sales | | |
|---|---|---|---|---|---|---|
| | Total | Independent | Chain | Total | Independent | Chain |
| | | Number | Number | | Amount | Amount |
| Atlanta, Ga. | 3,749 | 2,736 | 1,013 | $ 177,782,800 | $ 123,280,900 | $ 54,501,900 |
| Baltimore, Md. | 11,127 | 9,818 | 1,309 | 369,027,300 | 286,215,600 | 82,811,700 |
| Chicago, Ill. | 41,224 | 34,795 | 6,429 | 1,981,140,400 | 1,245,458,100 | 735,682,300 |
| Denver, Colorado | 3,899 | 3,341 | 558 | 155,672,800 | 125,288,300 | 30,384,500 |
| Fargo, N. D. | 392 | 366 | 26 | 19,652,600 | 18,406,900 | 1,245,700 |
| Kansas City, Mo. | 5,373 | 4,440 | 933 | 300,310,700 | 246,600,400 | 53,710,300 |
| Providence, R. I. | 4,877 | 4,310 | 567 | 192,272,500 | 152,761,200 | 39,511,300 |
| San Francisco, Calif. | 14,000 | 12,018 | 1,982 | 655,350,900 | 507,436,300 | 147,914,600 |
| Seattle, Wash. | 5,808 | 4,878 | 930 | 222,842,100 | 179,286,200 | 43,555,900 |
| Springfield, Ill. | 1,151 | 997 | 154 | 45,512,900 | 37,321,900 | 8,191,000 |
| Syracuse, N. Y. | 2,328 | 2,079 | 249 | 104,544,100 | 89,034,500 | 15,509,600 |
| Total | 93,928 | 79,778 | 14,150 | $4,224,109,100 | $3,011,090,300 | $1,213,018,800 |

TABLE 27. AVERAGE SALES PER ESTABLISHMENT AND COMPARATIVE STATISTICS CLASSIFIED BY 11 CITIES
(U. S. Census of Distribution, 1927.)

| City | Population (Estimated July 1, 1926) | Average Sales Per Establishment | | Number of Establishments | | Sales | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % of Total | | % of Total | | | |
| | | Independent | Chain | Independent | Chain | Independent | Chain | | |
| Atlanta, Ga. | 244,100 | $45,959 | $ 53,802 | 73.0 | 27.0 | 69.3 | 30.7 | | |
| Baltimore, Md. | 808,000 | 29,152 | 63,263 | 88.2 | 11.8 | 77.6 | 22.4 | | |
| Chicago, Ill. | 3,047,600 | 35,794 | 114,432 | 84.4 | 15.6 | 62.9 | 37.1 | | |
| Denver, Colorado | 285,000 | 37,500 | 54,453 | 85.7 | 14.3 | 80.5 | 19.5 | | |
| Fargo, N. D. | 25,600 | 50,292 | 47,912 | 93.4 | 6.6 | 93.7 | 6.3 | | |
| Kansas City, Mo. | 375,300 | 55,541 | 57,567 | 82.6 | 17.4 | 82.1 | 17.9 | | |
| * Providence, R. I. | 443,600 | 35,443 | 69,685 | 88.4 | 11.6 | 79.5 | 20.5 | | |
| * San Francisco, Calif. | 946,500 | 42,223 | 74,629 | 85.8 | 14.2 | 77.4 | 22.6 | | |
| Seattle, Wash. | 307,300 | 36,754 | 46,834 | 84.0 | 16.0 | 80.5 | 19.5 | | |
| Springfield, Ill. | 64,700 | 37,434 | 54,607 | 86.6 | 13.4 | 82.0 | 18.0 | | |
| Syracuse, N. Y. | 185,000 | 42,826 | 62,288 | 89.3 | 10.7 | 85.2 | 14.8 | | |
| Average | ..... | $37,743 | †$ 61,823 | 84.9 | 15.1 | 71.3 | 28.7 | | |

* Metropolitan Area. † Excluding Chicago, Illinois.



most certainly, draw a considerable part of their trade from adjoining territories in such classes of goods.

Tables 24-27 present the general statistics of retail trade reported by the U. S. Census of Distribution for 11 cities in 1927.[1]

**A Tentative Estimate of Total Retail Trade.**—Pending the collection of a general census of distribution it is possible to present only a rough estimate of the total trade of the country. Such estimates have been prepared at various times by the author. The first estimate to be published was for the year 1923, the report of which appeared in the *Harvard Business Review* in January, 1925. The methods used in making these estimates were as follows:

1. To the total of manufactured goods and other products for final consumption were added the total imports of consumer goods and therefrom were subtracted the total exports for a given year. Disregarding the possible carry-over from the preceding year and similarly the carry-over into the next year, this result should show what is apparently left for consumption within the country and which, therefore, must pass through the hands of retail dealers on the way to consumers. To this figure must also be added an amount estimated to cover the wholesalers' and dealers' margins of gross profit in order that the total may represent what is paid by the consumers. For 1923, using this method, the result obtained was about $34,000,000,000.

2. From limited sample studies made of the retail business, it is possible to estimate roughly that the average sales per person employed in retail stores is not far from $10,000 a year. The total number of people employed in the retail business in 1920, according to the census, was 3,480,000. As-

[1] The reports of these trial censuses constitute the most adequate presentation of retail trade ever collected in this country. They were made available to the public in a volume entitled "Retail and Wholesale Trade of 11 Cities," published by the Domestic Distribution Department of the Chamber of Commerce of the United States.

suming some increase in the number of persons from 1920 to 1923, it is believed that the total retail trade, using this method, would amount to about $35,000,000,000.

3. It is possible to estimate the total retail sales of the country by multiplying the total population by the per capita retail sales reported in the State of Pennsylvania. By applying this method for 1923, an estimate of total retail sales amounting to over $30,000,000,000 was secured. This figure was believed to be too low for such reasons as: the probability that the amount of net sales reported for taxation purposes is likely to be lower than actual sales; lack of thorough supervision of the licensing system leads to the belief that certain small businesses escape all reports and taxes; Pennsylvania retail trade is probably lower per capita than for the rest of the country because of the very general tendency to raise large parts of foods consumed at home, not only on farms but also in villages as well; and finally, a considerable part of Pennsylvania's retail purchases go out of the state, particularly to mail order houses. Some years ago it was asserted by a leading chain store executive that Pennsylvania led all other states in the amount of mail order business. On the other hand, Pennsylvania certainly gains a considerable amount of business from western New Jersey. However, considering all points, the Pennsylvania figures probably represent a low average, too low to represent retailing the country over.

4. Or, it is possible to multiply the total number of families in the United States by the average expenditures for goods bought through retail stores as determined from sample studies, such as that of 12,096 families whose purchases during the years 1918 and 1919 were studied by the U. S. Bureau of Labor Statistics.[2] From such studies it is estimated that the average income per family for the entire country was not far from $2,000 a year, of which about $1,500 is expended through

[2] Cost of Living in the United States, Bulletin No. 357, U.S. Bureau of Labor Statistics.



retail stores and, thus, the total purchases for 24,000,000 families would be about $35,000,000,000.

5. By deducting from the national income, as estimated by the National Bureau of Economic Research, all items not purchased through retail stores and for which there are fair estimates, such as taxes, rentals, value of home-grown products consumed at home, professional services, public utility charges, transportation, and so on, it was found that these miscellaneous expenditures amount to about one-half of the total national income. Similar estimates drawn up in Germany indicate that retail sales there also approximate one-half of the national in-

TABLE 28. ESTIMATE OF TOTAL SALES BY MERCHANDISE LINES FOR 1928

| | Billion Dollars |
|---|---|
| Food, including groceries, meats, fruits and vegetables, dairy products, etc. sold to consumers | 20.0 |
| Clothing, including ready-made apparel and piece goods for men, women and children, underwear, hats, hosiery, shoes, rubbers, etc. | 9.5 |
| Furniture | 1.2 |
| House furnishings, including floor coverings, draperies, curtains, kitchen hardware, utensils, china, glass, etc. | 1.0 |
| Automobiles, accessories, gasoline, tires, etc., for pleasure use only | 4.5 |
| Tobacco products | 1.8 |
| Beverages, soft drinks, etc. | 1.0 |
| Pianos | .2 |
| Radio and phonographs | .6 |
| Jewelry, watches, clocks, and silverware | .4 |
| Electrical goods for households | .6 |
| Perfumes, cosmetics, etc. | .5 |
| Soaps, dentifrices | .3 |
| Drugs, proprietaries, and patent medicines | .4 |
| Confectionery, chocolate, ice cream, and chewing gum | .3 |
| Books and magazines bought in retail stores | .1 |
| Paints and varnishes | .2 |
| Agricultural implements | .3 |
| Miscellaneous | 1.1 |
| Total | 44.0 |

come. For the year 1923, the total national income was about $70,000,000,000. If half of this passed through retail stores, then the total retail trade amounted to $35,000,000,000.

All of the foregoing methods are distinctly faulty and inadequate but apparently the best available until more authentic information is available.

Using the same methods, it is estimated that for the year 1928, the total purchases through retail stores amounted, conservatively, to about $44,000,000,000.

Table 26 gives a tabulation of the retail sales volume roughly distributed by lines of merchandise and by types of retail stores. Table 28 presents an estimate of retail sales by lines of merchandise for the year 1928.

One may also roughly estimate the amounts of retail business done by various classes of retail institutions for 1928 as follows:

TABLE 29. ESTIMATES OF TOTAL SALES BY TYPES OF RETAIL INSTITUTIONS
(For 1928)

| | Billion Dollars | % of Total Retail Trade |
|---|---|---|
| Department stores including general merchandise stores | 7.0 | 16.0 |
| Chain stores including all organizations of two or more stores under one ownership and management | 8.0 | 18.0 |
| Mail order houses including about 1,200 concerns doing a mail order catalog business | 1.6 | 3.6 |
| Company stores—stores owned and operated by industrial concerns primarily for their employees. These are generally of the department store type | 1.2 | 3.0 |
| House-to-house selling, canvassing, peddling, etc. | 1.0 | 2.3 |
| Consumers' cooperative stores | .2 | .4 |
| Independent stores not included in classifications given above | 25.0 | 56.7 |
| Total | 44.0 | 100.0 |

# CHAPTER XIII

## COOPERATION IN RETAILING

Most of the past history of retailing has been characterized by a fierce, individual, competitive struggle. Retailers have rarely exhibited much cooperative spirit. Small retailers in particular, like the industrial and agricultural populations that they served, were generally highly independent and individualistic. All trade information and methods were considered as deep secrets to be carefully guarded, even though the self-same methods were under continuous use by all other competitors at the same time. Nothing short of sheer necessity has brought about a change in these ancient characteristics of retailers. The many illustrations of cooperation occurring at the present time among all classes of retailers are the results of outside causes rather than inner desires to cooperate.

Chief among the causes of such cooperation has been the growth of powerful and effective competition from newer types of retail distributing organizations such as the mail order house, modern direct selling, and the chain stores. The need for meeting difficult local situations due to the competition of retail institutions in other nearby communities has in many cases aroused retailers to cooperation. In still other cases, retailers have been forced into cooperative bonds by restrictions placed upon them by state and municipal legislation, and by undue coercive sales methods employed by wholesalers and manufacturers.

**Varieties of Cooperative Groups.**—The cooperation of retailers sometimes takes the form of temporary informal organizations brought together to serve an immediate purpose.

In other cases, cooperation is carried on by permanent, well-established, well-organized societies or corporations.

Retailers' cooperative efforts are sometimes arranged among retailers who are actively competitive and in other cases among more limited groups of non-competitive concerns. Local associations usually attempt to include as many as possible of all retailers in a community regardless of the fact that they are competitive. Non-competitive groups of a local character are usually informal associations. Non-competitive groups made up of retailers from within the same line but located in different towns, may have very closely knit permanent cooperative organizations. It is beyond the purpose of this chapter to attempt any description of the informal, occasional or temporary forms of cooperative effort. In what follows an attempt will be made to describe briefly some of the formal types of organizations carrying on cooperative activities for retailers.

**Local Cooperative Groups.**—The commonest form of cooperative retail group is the local retail merchants' association found in many American communities, sometimes organized as a part of a larger business association such as the Chamber of Commerce, sometimes as an independent group.

Local merchants' associations usually attempt to secure as wide a membership of all the retailers within their communities as possible. In other cases the membership is limited to retailers located within a certain trading territory, such as the Fifth Avenue Association, the downtown club, and the Main Street associations. In other cases such associations are organized for the purpose of uniting retailers of but a single line such as grocers, druggists, or hardware dealers.

The interests of such local cooperative groups are usually devoted to such common problems as agreements upon working hours, time of opening and closing stores, policies with respect to holidays and vacations, and organized promotion of Christmas early shopping campaigns, and so on.



The efforts of retail merchants' associations are usually enlisted in support of various community movements which may include such matters as attempts to secure better streets and roads, better city lighting, more adequate parking and traffic regulations, community paint-up and clean-up campaigns, as well as local charities.

**Retail Credit Bureaus.**—A credit clearing house or retail credit bureau is frequently a function carried on by such retailers' groups. By means of the credit clearing house all consumers' credits are listed, and through inquiries any retailer member may determine whether a customer has gone beyond reasonable credit allowances and whether he is entitled to the further extensions or not. By means of the credit clearing house, merchants are saved a large part of the losses otherwise caused by bad accounts. "Dead beats" may be eliminated from credit privileges wherever there is an active central credit bureau.

**Cooperation to Secure Truthful Advertising.**—Retail merchants' associations usually lead in cooperation with local advertising clubs, in sponsoring movements for truthful advertising, and the elimination of dishonest business methods. In a number of the larger cities of the country, Better Business Bureaus have been organized, the chief purpose of which is to supervise advertising with the object of eliminating dishonesty and to develop a higher sense of trade ethics and relationship with consumers.

**Cooperative Delivery.**—In a few communities retail merchant associations have united for the purpose of conducting cooperative delivery systems, in some cases through cooperatively owned delivery companies, and in others by patronage of some central, privately owned delivery system. In at least one instance in a large city, namely St. Paul, Minn., retail merchants united on using the parcel post as a means of delivery.

**Promotion of Community Selling Events.**—Another form of cooperative effort successfully carried on by local merchants' groups is the promotion of special selling events with the object of attracting more trade to the community, increasing interest in its retail stores, and developing their business. Among such cooperative promotions may be mentioned "Buy at home" movements conducted by small-town groups or neighborhood store associations; health campaigns such as organized and successfully executed by the retail druggists of Columbus, Ohio; fashion shows in which the leading dry goods and apparel houses unite for the purpose of conducting large public exhibitions; and home furnishings weeks to which all of the stores dealing in household lines contribute. In these cooperative arrangements the retailers agree on a certain week and promotion policy in order to secure cumulative effects on the buying public. This, it has been found, is more profitable than each store operating by itself.

Another method of cooperative sales promotion that has been found fairly successful in a number of instances is conducting cooperative periodical community sales under some such term as "Dollar day sales," in which each member makes provision to offer certain goods of real value on certain days, in order that the people of the community may be induced to come to trade at that time.

**The Neosho Plan.**—One of the most effective systems of cooperative selling of the type just described is the Neosho plan, so called from the fact that it originated with the Retail Merchants' Association of Neosho, Mo., under the direction of its secretary, Mr. Guery R. Lowe. Under the Neosho plan, "Golden Rule Sales Day" is held on the first Monday of every month. In preparation for this day, each retail store in the association plans a certain number of specials to be offered on that day. These specials are advertised in a separate section of the community's newspapers. Each advertisement to appear in this separate section is carefully checked and approved by a committee of the merchants themselves to assure that each item offered is really a special and is properly described. At the same time and for the same day on which these special sales are conducted by the retailers of the community, arrangements are also made for the purchase of produce of all kinds from farmers who may come to town. In some instances, a public auction is provided for the sale of livestock, household goods, implements, or any other kind of goods that may be brought in to be sold, against which a low charge of 2% of net sales is made to cover the expenses.



**Cooperative Buying by Local Groups.**—For a number of years, local retailers' groups, particularly those organized to cover a single line of trade, have been deeply interested in the possibilities of cooperative purchasing. There are probably very few cities now in which there are no buying associations or buying clubs made up of grocers, of druggists or of other lines of retailers. Some of these buying groups operate only occasionally, while others carry on a constant business for their members. Some of these groups are highly successful, while others are very weak and ineffective.

**Cooperative Buying of Store Supplies.**—Outstanding success has been attained in the cooperative purchase of supplies in a few instances, notably by the Retail Trade Board of Boston. This association makes purchases of, or at least the arrangements for the purchases of, gasoline, automobile tires, paper, bags, twine, pins, office supplies, and electric bulbs.

**Cooperative Advertising.**—One of the most recent as well as most spectacular and noteworthy forms of retail cooperation among department stores and specialty shops in the larger cities is the development of cooperative advertising through the use of periodicals in many communities, known as "Shopping News." In some cases these papers print other reading

matter and information in addition to advertising, but more often solely advertising.

**Cooperation in Meeting Returned Goods Problem.**—Another type of retail cooperation effectively used by merchant groups in a few communities is in united efforts to meet the problem of merchandise returned by consumers. Such merchandise returns have, for a number of years, constituted a growing menace threatening the success and even the continuance of the retail business. Through cooperative effort considerable progress in reducing the amount of returns has apparently been made.

**Public Education in Training Retail Salespeople.**—Cooperation of retailers in securing public school attention to the problems of training people planning to enter retail store work has also been successfully effected. There are now more than 40 cities in which retail salesmanship is regularly taught, either in high schools or other public school classes. The establishment and proper conduct of such courses are usually in some part due to the cooperative effort of retail merchants.

The Retail Trade Board of Boston has set a high standard in its results secured by arranging with the local educational authorities to have practically all of the training in salesmanship conducted by public continuation schools. In addition, the Retail Trade Board conducts a series of courses annually, giving advanced instructions to executives and employees of the stores of Boston. These courses cover such subjects as merchandise control, textiles, fashion, advanced salesmanship, retail statistics, retail trade management, and so forth.

**Miscellaneous Local Retail Cooperative Groups.**—Among the many groups of retailers that have, through cooperative effort, made considerable success either in sales promotion or purchasing, and in some cases both, may be mentioned the following:



Buy Rite Stores, Omaha
Snappy Service Stores, Denver
Quality Service Stores, Omaha
Home Market Stores, Toledo
Serve U Save U Stores, Elmira
Star Service Stores, Inc., Boston
Trinity Stores, Wilmington
Star Service Stores, St. Joseph, Missouri
Home Owned Stores Association, Kalamazoo

**State, Sectional, and National Retail Organizations.**—Practically every important retail trade is represented by state, sectional and national organizations. There are 36 state and sectional organizations in the hardware field alone. These groups include a membership of 21,000 hardware dealers. These groups are in turn affiliated with the National Retail Hardware Association, one of the most effective and influential trade associations in existence. The National Retail Clothiers and Furnishers Association includes affiliations with 36 state and sectional associations.

Among the leading retail trade organizations are the following:

National Retail Dry Goods Association
National Retail Hardware Dealers' Association
National Retail Druggists Association
National Retail Furniture Dealers' Association
National Retail Grocers' Association
National Retail Clothiers and Furnishers Association

One of the recent newcomers among retail trade associations is the National Chain Store Association, established in the latter part of 1928. This group supersedes a former organization known as the National Chain Store Grocers' Association.

The American Institute of Food Distribution, also established in 1928, occupies a unique position in the retail trade. It serves as a clearing house of information for all branches and trades dealing with foods. It maintains a research depart-

ment, collects data, offers a consultation service, and publishes bulletins pertaining to the food industry. The American Institute of Food Distribution provides membership contacts among manufacturers, wholesalers, and brokers, as well as retailers, in food lines.

National organizations of retail trades are to be found highly developed in Europe as well as in this country. One of the most interesting of these organizations is the Independent Association of Retail Dealers of England and the British Empire, with a large membership made up mainly of department stores and dry goods institutions in England and the colonies. The I. A. R. D., as it is called, acts as a clearance house on almost all conceivable branches of information useful to the retail trade.

**Typical Activities of Retail Trade Associations.**—The purposes and kinds of work carried on by a national retail trade association may be best defined by describing briefly the work of one of such associations. The National Retail Dry Goods Association, including in its membership, department stores, dry goods, and specialty shops, is selected for this purpose. This association came into existence in 1911. Membership has been successfully obtained from retail dealers all over the country. Dues are collected from members in proportion to the volume of their sales. The organization maintains extensive offices in New York City in which the work of the association is carried on continuously.

Each member has a vote in determining the policies and in the selection of officers. A board of directors represents the membership in outlining the details of the work carried on by the association. The actual work of the association is carried on by a paid staff under the direction of a managing director. The work is organized on functional lines. Separate departments or divisions, each in charge of competent division managers, carry on its activities. Among these are the following:



A Research and Information Department in charge of the information files of the organization. This department studies sales trends, makes special researches, and, with the help of the members of the association, determines merchandising standards. The services of this division are made available to its members through consultation in person or by letter, by detailed studies, and by the publication of reports.

An Insurance Division conducts general studies of insurance in the retail field and renders specific services to the individual member stores. These studies have in some cases been followed by efforts intended to secure better insurance coverage at lower costs.

The Merchandise Managers' Division conducts periodical meetings of merchandise managers of the members' stores, arranges programs for these meetings, carries on research and investigation, and serves as a clearing house of information on merchandising subjects.

The Sales Promotion Division and the Store Managers' Division serve the same functions for these two groups of retail store executives as does the Merchandise Managers' Division.

Proceedings of these division meetings are published and constitute very valuable material dealing with the current problems of retail stores.

The Personnel Division not only conducts division meetings of personnel directors and educational directors of the retail store managers, but also promotes the development of personnel methods, including employment technique, wage payment plans, employee tests, and educational methods among member stores.

The Controllers' Congress, a division of the National Retail Dry Goods Association, is made up of the controllers and accountants of the member stores. This organization has made outstanding contributions not only to the members of the National Retail Dry Goods Association but to the retail trade

as a whole, by its special studies of retail accounting, its encouragement of outside studies in retail accounting, and by its efforts to secure fair and proper taxation of retail stores by the Federal Government.

There are also other divisions dealing with traffic, receiving and marking, and delivery. The import managers of the member stores employing such executives are also united as one of the divisions of the organization, and recently there has been established the Bureau of Costume Art for the purpose of training stylists, fashion advisers, and specialists in sales promotion of fashion goods.

The National Retail Dry Goods Association has for several years been deeply interested in the Prince School for the Training of Retail Store Educational Directors. Prince graduates are employed in a number of the members' stores, and the educational program, as at present carried out by the Prince School, is financially sponsored by the members of the association.

A testing laboratory, developed to carry on scientific tests of qualities of all classes of merchandise handled by department stores, is another branch of its work.

In addition to the many divisional meetings conducted throughout the year by the various functional divisions referred to above, the association holds an annual meeting, usually extending through an entire week, at which the major problems of the association are discussed by its outstanding members.

The association also conducts a Washington bureau in charge of a competent executive who keeps the association and its members informed as to governmental developments affecting the retail trade. This executive acts as the representative of the association in government hearings and conferences at which subjects of interest to retailers are discussed.

The association maintains continuous contact with its members through the publication of numerous special reports



from its various divisions and by a bulletin ably edited, issued monthly.

**Cooperation in Market Work.**—One of the forms of cooperation most frequently employed by retailers and which is becoming increasingly important is joint use and management of purchasing facilities. Cooperative market research, common use by several retail stores of market aids, and group buying are activities in which an increasing percentage of independent retail store managers are participating. A description of the functions of resident buying offices may be helpful to a clear understanding of this form of cooperation.

**Cooperative Resident Buying Offices.**—Resident buying offices are maintained in New York, Chicago, and other important market centers by a large number of stores. Practically all department stores, most specialty shops, as well as a great many retailers in other lines such as groceries, drugs, 5 cents to $1 lines, furniture and furnishings, novelties and gift goods, use resident offices through which to keep in touch with market developments and to make purchases.

There are probably at least 400 resident buying offices in New York alone and smaller numbers in other cities. Of the number existing in New York, probably a quarter represent single department stores, chain store systems, and mail order houses, that is, individual companies. The great majority of such offices serve from two stores up to 100 or more.

Resident buying offices serving single organizations are, of course, privately owned and managed by those organizations. The ownership and management of resident offices serving more than one store may be either private or cooperative. Most of such organizations are privately owned. Their services are sold to retail stores that operate through them for annual or monthly fees, or are rendered on the basis of commissions charged on all purchases made for the store. Some private offices operate on a combination of fees and commissions.

The cooperatively owned type of resident buying offices includes the big resident organizations serving groups of department stores, such as the Retail Research Association with its buying and wholesale organization, known as the Associated Merchandising Corporation, the Syndicate Trading Corporation, probably the oldest of the cooperatively owned department store resident concerns, established in 1884, the Specialty Stores Association, the Cavendish Trading Corporation, American Retailers, Inc., the Dry Goods Alliance, the Dry Goods Union, and the Retailers Commercial Union.

Cooperative resident buying offices are also to be found in other lines such as men's apparel, shoes, bakeries, groceries, drugs, and hardware. Many of these organizations operate only locally, serving nearby groups of retailers. Others have national ramifications.

Cooperative ownership of a resident organization often takes the form of a corporation, shares of which are owned by the participating members. Usually each member is allowed a single vote in the organization regardless of the size of the store or contributions paid. The regular corporate type of organization is followed. There is a board of directors, an executive committee, and officers. The board of directors and executive committee are usually made up of members from the group of stockholders designated for the purpose of securing intensive, expert supervision of the activities of the organization. The actual operations of the resident office are performed by a director or manager and staff who are employees.

Resident offices provide a variety of services for their member stores. The resident office is, first of all, the store's headquarters in the market city. It is the place to which the store's buyers come, where many transactions are effected. Various conveniences are usually provided for buyers such as office room, telephone and messenger service, stenographic help, order copy file equipment, and employees who follow up orders



after they are placed by the store buyers to insure their prompt delivery.

Resident offices usually serve their member stores by careful study of the market for available merchandise, price conditions, new developments, and so on. Member stores are informed about all such facts by means of frequent letters and bulletins.

Actual buying is another service performed by resident offices for member stores. Such buying is of several kinds. First of all, there is the buying handled by resident office assistants who place orders for the member stores in the absence of the store buyers. The next step in importance of the buying function carried on in resident offices is buying according to instructions and specifications authorized by member stores. Such buying may be individual, that is, for one time only, continuous, or periodical. Stores often authorize their buying offices to buy a definite quantity of goods weekly or monthly. When similar authorizations to buy are accumulated from several members, the resident buyer may be able to assemble the orders and secure quantity concessions. This type of resident office buying has been called "assembled order buying."

It is also possible in some cases to arrange for cooperative buying by inducing the member store buyers to unite in their selections and pool their orders through the resident office. This is known as "group buying." In other cases the office makes arrangements with resources to sell the store members of the group to secure special price concessions, either on an agreed quantity basis or without quantity limitations. Store buyers may thereafter place their orders with these concerns and enjoy the better prices. This is known as "preferred resource buying."

The resident office, in a few instances, also serves the function of a central buying office. In such cases the resident buyer makes all of the purchases for member stores, performing the same kind of work for its member stores as the central buyer does in a chain store organization. Central buying has made

but little headway, so far, in the cooperative resident office field. Opinions vary as to its future.

A resident office may also include as a division of its work a wholesale department for the benefit of its members. Its services are in such cases conducted in a manner similar to that of a regular wholesale institution, with the difference that salesmen are not employed to travel as for regular wholesale houses.

Another service made available through some cooperative resident organization is the conduct of a shipping department for the receipt and consolidation of packages from all resources in the city. Through such consolidation of packages, important economies are effected in transportation expenses.

**Cooperative Exchange of Information.**—One of the most important effects secured through cooperative retail associations, particularly if non-competitive, is the interchange of information on all phases of store operation. Statistics and reports are gathered from the members, compiled and interpreted at a central office, and are then reissued to the members in such form as to permit easy comparison and discovery of departments or details in which individual stores are outstanding, either from the standpoint of efficiency or deficiency. From such an interchange of information all members find it possible to learn, first of all, what the best results existing within the group are and then to take steps to bring their own weaker departments and activities up to these standards.

Out of such comparative studies of the expenses of operation there develop movements within the group for improved as well as uniform accounting methods, for the application of improved systems in merchandise control, for the control of waste as well as other matters affecting other operating departments of the business.

A central employment exchange has been found an extremely helpful form of cooperation. It saves the time of



individual executives in locating prospective employees, particularly of executive rank.

**Cooperative Buying.**—Marked accomplishments have been made during recent years in cooperative buying. The types of cooperative organization employed for the purpose of doing cooperative buying vary greatly. Mention has already been made of the cooperative purchasing activities of retail associations and resident offices. In some instances, cooperative buying is conducted directly as a part of retail association activity, but more frequently it is managed by special organizations set up for the purpose. The simplest of these are the more or less informal buying groups which are frequently found among grocers and other retail dealers throughout the country. Nothing is more natural than the development of cooperative buying among a group of retailers of the same trade as soon as they get together on a friendly basis. The obvious wastes of separate purchasing and savings to be made by cooperation suggest themselves to all, but there are very real difficulties in such cooperative efforts, and, as a result, a great many of such buying groups do not last more than a short time.

A greater degree of permanency for cooperative buying is sometimes secured by the adoption of plans for the promotion of a special brand or label. The buying for the group is then done in lines to bear the special label. In such instances where the special label goods are handled long enough and given sufficient attention by retailers to obtain a fair degree of consumer acceptance, the incentive for continuing group buying grows.

**"Voluntary Chains."**—Organizations of independent retail stores for the purposes of cooperative buying and selling have recently been called voluntary chain systems. Such groups are of at least three well-defined forms.

1. Retail cooperative buying groups such as described under resident buying offices above.

2. Retailer-owned wholesale organizations of which there were, at the beginning of 1929, 35 or 40 in the drug field with over 17,000 retailer members, a much larger number in the grocery field with an estimated membership of over 23,000 retail grocers, and others in various lines of trade.

3. Wholesaler-retailer cooperative groups generally established by wholesalers to assure themselves of retail outlets in the future, and a means of competing with chain stores as well. Some wholesalers have actually purchased retail stores outright and have formed regular chain store systems. Others have used the voluntary chain plan and have formed contractual relations with retailers, tying them for definite periods of time to their wholesale concerns.[1]

There are at least five or six national or semi-national organizations that are promoting voluntary chains made up of wholesalers and retailers under standard plans of operation. Among these, one of the oldest is the system of "Red and White Stores" with headquarters in Buffalo, established by R. W. Baker but intensively pushed by S. M. Flickinger, a wholesale grocer.

The best-known of these organizations is the "Independent Grocers' Alliance" of Chicago, or the I. G. A. as it is commonly called in the trade. Other groups include "Clover Farm Stores Association" of Cleveland, "Riteway Stores" in Michigan, and "Nation Wide Stores" in New England. Several other important organizations exist in this field.

These wholesaler-retailer groups have grown very rapidly. At the opening of 1929, there were said to be over 60,000 grocery stores tied to more than 400 groups.

**Manufacturers' Cooperative Retail Groups.**—Almost coincident with the origin of manufacturers' chain store systems in this country came movements to organize retail groups

[1] "The Voluntary Chains," a pamphlet published by the American Institute of Food Distribution, 1929, gives an excellent summary of the development of these types of organizations.



to promote particular products. The "Rexall Drug Stores" organized by Louis K. Liggett, founder of Drug, Inc., is probably the oldest and certainly the most important of these groups. Nearly 12,000 druggists throughout the country are members of this group, handle and push the sale of "Rexall" products, a line made by Drug, Inc., and controlled and sold entirely by the Rexall Drug Stores. By this device these products are removed from all possibilities of destructive price competition, and the goodwill acquired by advertising and by use of the Rexall products is enjoyed by its dealers.

Nyall and A. D. S. are two other similar groups that follow the same plan of organization with wide memberships in the retail drug field. Recently E. R. Squibb & Son entered the field of manufacturer-retailer cooperative organizations. McKesson & Robbins with its large chain of wholesale drug houses also operates a cooperative plan involving manufacturers on the one hand and thousands of retail drug stores on the other.

Cooperation among retail dealers has all the advantages and disadvantages of cooperation as found among consumers and producers. Under necessity, such cooperation thrives. When the immediate necessity disappears or declines, unless there is very able management, the cooperation is likewise likely to decline.

**Essentials of Effective Retail Cooperation.**—The difficulties of securing successful cooperation among retailers are precisely the same difficulties faced by cooperators among producers on the one hand and consumers on the other. Cooperation implies the necessity of merging individual initiative in common lines determined by joint decision. To secure a community of interest and of effort on specific lines means that there must be objectives clearly understood and desired by all. To secure this, an enormous amount of educational work is required both at the inception of the organization and continuously thereafter in keeping it going.

Cooperation invariably implies compromise. Strong-willed individuals within a cooperative group find their wishes continuously thwarted by conflicts with other members of the group. The net result of cooperation may be highly beneficial from a business standpoint, but almost invariably it means some sacrifice on the part of the individuals participating. The merchandise desired and the resources patronized, the methods of making purchases, the exact conditions under which the purchases are made, involve decisions on numberless details upon all of which there may be differences of opinion among the cooperators. True cooperation implies the reduction and elimination of these differences of opinion by discussion and education. Domination of a cooperative group by a single member or by a few members, or the attempt of the management to use coercive measures almost invariably leads to the break-up of the organization. As indicated in the chapter on the independent retailer, many retail merchants would rather run their businesses in their own way, even at a loss, without interference or suggestion from outside, than sacrifice their individual and personal views to that of other individuals or groups.

Successful cooperative organizations in the retail field, as elsewhere, in almost all cases have had their origins through aggressive, tireless, promotion work contributed by certain individuals. In a very true sense every cooperative organization owes a great deal to its original promoters who, in most cases, at great sacrifices of their own time and energy, induce their fellow members to join the cooperative group and then also, usually furnish not only the imagination but the organizing ability as well to keep the group together.

A strong nucleus of active cooperators is a very helpful factor within a cooperative organization. Such a group need not dominate nor force its will upon other members of the group but may lend its influence whenever and as often as it may be necessary to keep the group activities going smoothly.



In the first flush of interest at the time of organization there is likely to be an overemphasis of the results to be attained and also an underestimate of the amount of time and energy required in which to secure such results. When the cooperative scheme fails to deliver these results as promptly as might be expected, such individuals tend to become discouraged and desire to withdraw. This condition may not only arise within the early days of a cooperative group but may arise from time to time thereafter. It is under such conditions as these that a strong nucleus of members, all fully convinced of the value of the cooperative enterprise who can be counted upon to support it during dark as well as sunshiny days, proves of greatest value. Neither the original organizers nor the paid employees of the group can possibly have the influence over weakening members that the encouragement of other members, who have similar interests and whose conclusions may, therefore, be accepted as of value, can exert.

Obviously, it is of utmost importance to the continued success of cooperative movements that there should be almost a continuous program of education and encouragement of its members. Many cooperative enterprises properly organized and soundly established have gone to pieces through the failure to provide such educational work after the establishment of the group. The management of cooperative organization is similar to the management of a political party in this respect; its members need to be kept in line in the same way that politicians keep their constituents in line.

To summarize, the promoters of successful dealer cooperation are called upon to render a high degree of unselfish service. It is quite as important to make sure that members are told what has been done for them as it is to tell them what cooperation will do for them. It is necessary to keep the organization as simple as possible so that individual members may at all times freely and easily reach the management, to express their opinions and wishes as to the services of the

group. Finally, one of the reasons for cooperation is to secure economies, so all actual direct expenses must be kept as low as possible.

The disadvantages of cooperation are, first, the amount of time and energy consumed in conferences and conversations to form the group, to effect working methods to carry on the activities of the group, and to keep it together. The individual retail dealer running his own retail shop, accustomed to taking his own initiative and making prompt decisions, on entering a cooperative group is likely to experience strong revulsions of feeling against what appears to be almost an utter waste of time expended in arriving at joint or cooperative decisions by the conference method.

As against the slow-moving methods of the cooperative group so wasteful of time and energy of all participating, there is a strong element of safety gained by thorough deliberation and careful consideration of all viewpoints expressed. The cooperative method is not well-adapted to making quick decisions or rapid changes. The cooperative group in a long-range way may be highly flexible, but in handling immediate details is extremely inflexible. Finally, the real weakness of the cooperative group is that its members may as easily and as promptly sell out their stores to chain organizations as any other independent retailers. Cooperative arrangements as a rule include no conditions for control in the ownership of the business.

The rapid development of chain store systems everywhere and in all lines has emphasized the value and the need for retail cooperation. There has been no movement among independent retailers in recent years so widespread, so carefully considered, and so full of possibilities for good and at the same time for waste, if not properly conducted, as cooperation among retailers. In a very real sense, cooperation is the only effective means of meeting the independents' present-day problems.

# CHAPTER XIV

## THE FAILURE RATE IN THE RETAIL BUSINESS

**Business Death Tables.**—One method of obtaining a clear idea of the physical troubles of humanity is to study the mortality tables. From the death rates one may find something concerning the relative importance of the causes of death, and from the study of these causes, scientists and physicians have been able to find remedies and thus reduce mortality. In the same way, a study of the failure statistics for retail stores should not only reveal the direct causes of failure, but may also lead to the discovery of methods of reducing the failure rate.

**Definition of Terms.**—Failure in the retail business, as understood here, does not necessarily, nor even usually, imply bankruptcy in the legal sense. It simply means discontinuance of a business because of inability to conduct it so as to make it yield at least a fair wage to the manager and a fair rate of interest on the capital invested. By a fair wage is meant such a wage as the manager could command in employment elsewhere, and by fair rate of interest is meant the customary or market rate. The commonest type of failure in the retail business is where the manager of a store finds that he is "losing money," that he is meeting expenses out of capital and not out of earnings, and that the business is going backward with no hope of recovery. Sometimes it is discovered that a business cannot be made to pay, and the decision to get out from under it is quickly made. In other cases, the final move is not made until the dealer's original capital is almost if not entirely gone. Occasionally the loss involves not only the dealer's capital but also a part of the funds loaned him in merchandise or in other

forms by his creditors. In any case, the store is finally sold or disposed of, and its manager sets out to embark in something else.

**Credit Agency Statistics.**—The usual failure statistics issued by such concerns as Dun and Bradstreet comprise only failures in which creditors lose something. No account is taken of that very large class in which the dealers are able to satisfy their creditors, but lose part or all of their own substance.[1] The proportion of total failures enumerated by Dun and Bradstreet must clearly be very small, and, consequently, such figures, if taken to show the actual failure rate in business, are misleading.

Many articles have been published and widely quoted, calling attention to the low proportion of failures to the total number of people in business as shown by Dun's tables. Upon this as a basis, the estimates of very much higher failure rates made by many experienced business men are criticized. That the word "failure" is used in an entirely different sense in each case is completely overlooked.

**Early Failure Statements.**—So far as the writer has been able to learn, one of the first public statements in this country concerning the failure rate among merchants was made in 1840 by General Henry A. S. Dearborn, then collector of the port of Boston, in an address before the members of the Massachusetts Legislature. His statement was as follows:

"After an extensive acquaintance with business men, and having long been an attentive observer of the course of events in the mercantile community, I am satisfied that, *among one hundred merchants and traders, not more than three in this city ever acquire independence.* It was with great distrust that I came to this conclusion; but, after consulting with an experienced merchant, he fully admitted its truth." [2]

[1] Bradstreet's "Failure Statistics—Their Meaning and Utility," 1910, p. 5.
[2] *Hunt's Merchants' Magazine*, 15:475.



This statement was questioned and doubted by other men in public life in Boston at that time, and caused other investigations to be made. The results of these, though in most cases not so definite, served to corroborate General Dearborn's testimony, at least to the extent that very few of those who entered the merchandising business were able to make a success of it.[3]

A generation later, a study was made among the merchants of Worcester, Massachusetts. It was found that out of 56 firms doing business in that city in 1845, one-fifth passed out within five years, two-fifths within ten years, and three-fifths within fifteen years. Following this statement an estimate was made for the retail business in general, to the effect that, out of all who begin as merchants, at least 25% fail within five years, 50% fail within ten years, and 66⅔% fail within fifteen years.[4]

**Other Estimates.**—In his testimony before the Industrial Commission in 1900, John Wanamaker stated that only about 4% of all who embark in mercantile business succeed. At the same time he quoted A. T. Stewart, a former great retailer and wholesaler of New York City, who used to claim that only 2% succeeded.[5]

Leroy Beaulieu, a great French economist, estimated that in France, out of 100 new businesses, 20 fail soon after starting, 50 to 60 vegetate, or are able simply to hold their own, while from 10 to 15 are successful.[6]

David A. Wells, a well-known American economist of the latter half of the nineteenth century, estimated that at least 90% of those who go into business fail.[7]

Professor Commons of the University of Wisconsin in his "Distribution of Wealth," page 202, quoted from some writer

[3] E. T. Freedley, Common Sense in Business, 1879, pp. 185-187.
[4] *Nation*, April 12, 1888.
[5] Industrial Commission, Vol. VII, p. 452.
[6] Répartition des Richesses, Ch. XI.
[7] Recent Economic Changes, p. 351.

not named, that "10% of the men who go into business succeed, 50% vegetate, and 40% fail." This statement is accepted as a basis upon which to build an economic doctrine concerning profits.

**The Conflict of Statements.**—Plainly these estimates are in conflict with such statistics as those offered by Dun and Bradstreet, unless the latter are interpreted correctly. For example, for the year 1910, Bradstreet's showed that 11,573 firms out of a total of 1,592,509, or .72% failed. Dun's for the same year showed 12,652 failures out of a total of 1,515,143 firms of all kinds, or .80%. In no year since either of these two concerns has begun to collect statistics on failures have the percentages even equaled 1½% of the total number of concerns in any one year.

But for the year 1910, Bradstreet's tables show that over 321,000 names of firms were taken off their lists, amounting to more than 20% of all the concerns in business during that year. In addition to these, a large number of changes were noted in firms, some of which, at least, must have been due to weakness and failure. No explanation is attempted for these.

**The Oshkosh Study.**—To get a little more definite idea of the actual proportion of failures in the retail business, the writer undertook a study of the failures in Oshkosh, Wisconsin. While this study ends with 1912, its facts are so typical and its conclusions so closely applicable to present-day conditions that it has been deemed advisable to include the figures in their original form.

With the help of the city directories, lists were compiled of all persons who had engaged in certain lines of the retail business from 1890 down to 1912, and the changes in personnel from year to year were noted. By interviewing a number of the older merchants and other old residents of the city, the attempt was made to find out why each retailer who had discontinued business during the period under study had



dropped out, so that the actual number of failures could be learned. The following represents the results of this study.

**General Facts About Oshkosh.**—In order that the conditions of the city may be understood and that the figures showing the mortality rate of its retail business may be given proper weight, the following general facts are presented:

The population of Oshkosh in 1890 was 22,836; in 1900 28,284; and in 1910, 33,062. It is located in the heart of a rich agricultural area of eastern Wisconsin, and is the county seat of Winnebago County. The population is made up almost entirely of whites of North-European extraction. Among the adults, foreign-born are slightly in excess of native-born of foreign parents; and this class is somewhat in excess of native-born of native parents. Most of the foreign-born adults of voting age are naturalized citizens, according to the 1910 census report. Among the foreign-born, Germans predominate, and among the native-born of native parents, New England and New York strains prevail. According to the statement of an old merchant, "The Yankees, the Germans, and the Irish run the town."

From 80% to 90% of the land area in the county is in farms, and the average value of farm land per acre was not far from $75 in 1910. Most farms run from 40 to 160 acres in size, the average size being 95 acres, and the average number of acres under cultivation, 68 acres. About 20% of the farms are managed by tenants. Milk and milk products, corn, oats, barley, and potatoes are the most important products.

The manufacturing industries of the City of Oshkosh employed over 6,000 people and a capital of $10,000,000; wages and salaries paid by these same industries amount to about $3,250,000 annually. The chief manufacturing industry is woodworking. A large number of the people employed are either unskilled or only semi-skilled.

There were 835 persons within the city paying an income

tax for 1911. Out of this total, 132 retail dealers were income-tax payers, but 94 of these had other sources of income than their stores. Only 41 of the income-tax payers received their incomes from the stores alone. Among these, saloon-keepers ranked highest with a total of 8, grocers came next with 5, and druggists third with 3.

The sales of the stores, according to estimates made by leading merchants, amount to about $2,000,000 annually in groceries, including butter, eggs, fruit, and vegetables; $1,000,000 annually in dry goods, notions, women's and children's ready-to-wear goods; $350,000 in men's and boys' clothing; $250,000 in shoes; and $150,000 in hardware; all at retail prices.

**Oshkosh a Typical City.**—In general, these conditions were very similar to those of other cities of the Middle West, and no unusual or peculiar conditions, so far as the retail trade is concerned, existed. The town had no booms within the period under consideration, nor any particular slumps. The population and industries of the city, as shown by a study of the past censuses, had slow, gradual growths. In such a place as this, if anywhere, we should be able to find normal tendencies operating in the retail business.

**The Table of Retail Dealers.**—Table 30, page 403, shows the number of retail dealers in the city handling the following lines of goods—groceries, shoes, dry goods, men's clothing, hardware, furniture, and drugs. All other lines are omitted. After the date 1890, in the left-hand column of the table, appears first the number of dealers in business in that year. Following the line to the right, one may trace the gradual dropping out of the original dealers by noting the diminished numbers at each date. After the year 1893, in the left-hand column of the table, under the appropriate place, appears the number of new dealers found in the new 1893 directory—dealers who were not in the 1890 list. These new firms are followed through



to the end of the period in the same way as those found in the 1890 list. The 1912 column shows the number remaining of each group. In the same manner, for each year in which a directory was issued, the number of new firms listed is noted and then traced down to 1912.

The table is to be interpreted as follows:

Of the total number of merchants in business in Oshkosh in 1890, 145 in all, only 18 remained in 1912. Of the 43 new dealers who began business between 1890 and 1893, only 8 remained in 1912. Of the 61 who began between 1893 and 1895, only 9 remained in 1912. Of the 52 new ones listed in 1898, 13 remained in 1912, and so on.

TABLE 30. CHANGES IN RETAIL DEALERS IN OSHKOSH FROM 1890 TO 1912

| | 1890 | 1893 | 1895 | 1898 | 1900 | 1903 | 1905 | 1908 | 1910 | 1912 |
|---|---|---|---|---|---|---|---|---|---|---|
| Existing stores, 1890 | 145 | 117 | 91 | 73 | 50 | 37 | 29 | 27 | 18 | 18 |
| New firms: | | | | | | | | | | |
| 1893 | ..... | 43 | 24 | 18 | 15 | 12 | 11 | 9 | 8 | 8 |
| 1895 | ..... | ..... | 61 | 33 | 20 | 19 | 17 | 16 | 13 | 9 |
| 1898 | ..... | ..... | ..... | 52 | 34 | 26 | 20 | 15 | 15 | 13 |
| 1900 | ..... | ..... | ..... | ..... | 45 | 31 | 19 | 13 | 10 | 9 |
| 1903 | ..... | ..... | ..... | ..... | ..... | 35 | 24 | 19 | 16 | 13 |
| 1905 | ..... | ..... | ..... | ..... | ..... | ..... | 32 | 19 | 13 | 10 |
| 1908 | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 35 | 24 | 20 |
| 1910 | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 41 | 34 |
| 1912 | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 38 |
| | 145 | 160 | 176 | 176 | 164 | 160 | 152 | 153 | 158 | 172 |

**Results of the Survey.**—It appears from the table that there was a general increase in the number of retailers from 1890 up to 1898, and then a decrease up to 1908, followed by another increase up to 1912. Clearly the number of retailers did not increase during the period as rapidly as the population increased. While the population increased from 28,000 to 33,000 between 1900 and 1910, the number of retail stores actually decreased from 164 to 158.

The city was supplied with 145 retailers in 1890 and with

176 in 1895 and 1898. These figures represent the range. The average is nearly 162 for the period. To keep the city supplied with this number of stores during the period of 22 years, 526 people embarked in business and invested their money and time. Out of these, 354 dropped out, leaving 172 at the end of the period. One of the remarkable things about the showing is the continuous inflow and outflow of people, keeping the total number engaged in business at any one time so close to the average.

To determine the causes of dropping out, the writer was able to get information concerning 201 out of the total of 354 who quit business during the period. This information was gained largely from wholesale and retail merchants who had been in business during the entire period and had watched the development of the retail business and noted every change with a competitor's interest. Out of the total of 201, the general causes for dropping out of business were as follows:

TABLE 31. CAUSES FOR DISCONTINUING BUSINESS

| Cause | No. of Stores |
|---|---|
| Death | 24 |
| Retired because of ill health | 1 |
| Bankruptcies handled by courts | 6 |
| Failures or fizzles | 124 |
| Sold out, probably representing losses* | 27 |
| Sold out, representing gains† | 14 |
| Retired with competences† | 5 |
| Total | 201 |

* According to the belief of the writer's informants, some loss, amount or extent not known, was involved in each of these.

† Success as defined by the writer's informants was often a very moderate thing. One of the merchants was able to buy and pay for a farm from the proceeds of his sale. Another of the retired merchants has an income of about $800 a year from his investments. The majority of the 14 went into other businesses. Some of the most successful merchants in the city are still in business, and are therefore, not included in the table.

Out of the total of 354 who dropped out during the period, 153 could not be accounted for. Whether they succeeded or not could not be learned. It seems that most of them quietly disposed of their businesses and slipped out, and the changes in ownership of their stores were hardly noted by the people of the city. It seems safe to venture that none of them were very successful or they would have attracted the attention of competitors. On the other hand, if they failed, it was probably not failure that involved any extensive loss to creditors, or the latter, particularly the Oshkosh wholesale houses—in the grocery line at least—would have recalled them more definitely.



**Summing up the Situation.**—In discussing the situation with some of the older merchants and with managers of wholesale houses, it seemed to be the general estimate that those who have entered the retail business in the city had, on beginning, sums ranging on the average from $300 up to $1,000 saved up from wages, or gained in some other way, frequently by inheritance; and that with this, and as much credit as wholesale houses would grant, they began business. A few, as we have noted, were able to make a success of it, but the great majority fizzled out. The majority of retail concerns in the city have a life of from less than 1 year up to 8 or 10 years, with the average centering about 6 years. More drop out during the first year than during any other year of trial.

The story of the retailer who fizzles out seems to be somewhat as follows: he comes into business with a capital of his own of from $300 to $1,000, usually gained from some occupation other than retailing. He spends a few years in the business, struggles hard to make it go, and then slips out with little or nothing of his original capital, and nothing but a bare living to show for his labor and often for the labor of members of his family also.

There seems to be a steady flow of capital, generally in small sums saved from other occupations, into the retail business. Here, in the course of a few years, it is consumed or lost,

and those who contribute it are forced to get out and try other occupations again or work as clerks, giving the results of their experience to other retail store employers. The contributions of capital to other businesses from the retail business seem to be insignificant compared with what goes into it. It thus appears that under present conditions, retailing is at least partly parasitic, though indirectly and involuntarily so.

**Previous Occupations of Oshkosh Merchants.**—Some light may be thrown on the sources of the capital put into the retail business by a study of what occupation each of the present owners of retail stores in Oshkosh came from preceding the present work.

TABLE 32. OCCUPATIONS OF OSHKOSH MERCHANTS BEFORE GOING INTO PRESENT BUSINESS

| | |
|---|---|
| DRUGGISTS: | |
| Drug clerks | 11 |
| JEWELRY: | |
| Watchmakers | 6 |
| General tinker | 1 |
| Tailor | 1 |
| Factory hand | 1 |
| SHOES: | |
| Shoe clerks | 11 |
| Cobblers | 6 |
| Grocery clerk | 1 |
| Factory hand | 1 |
| Barber | 1 |
| CLOTHING: | |
| Clothing store clerks | 9 |
| Dry goods clerks | 3 |
| Grocery clerk | 1 |
| Saloon-keeper | 1 |
| FURNITURE: | |
| Cabinetmakers | 2 |
| Clerks in furniture store | 3 |
| Factory worker | 1 |
| Farmer | 1 |
| HARDWARE: | |
| Hardware business formerly | 2 |
| Hardware store salesmen | 2 |
| Tinsmiths | 2 |
| Traveling salesman | 1 |
| Furniture manufacturer | 1 |
| Iceman | 1 |
| DRY GOODS: | |
| Merchants before | 3 |
| Dry goods clerks | 3 |
| Peddler | 1 |
| Grocer | 1 |
| Farmer | 1 |
| Shoe merchant | 1 |
| Carpenter | 1 |
| Housewife | 1 |
| GROCERS: | |
| Grocery clerks | 16 |
| Factory hands | 16 |
| Housewives (widows) | 9 |
| Farmers | 9 |
| Grocers in other places | 8 |
| Butchers | 4 |
| Bakers | 3 |
| Milkmen | 3 |
| Carpenters | 2 |
| Traveling salesmen | 2 |
| Saloon-keepers | 2 |
| Musicians | 2 |
| Section man on railway | 1 |
| Teamster | 1 |
| Motorman | 1 |
| Blacksmith | 1 |
| Cigar maker | 1 |
| Shoemaker | 1 |
| Machinist | 1 |
| Sewing machine agent | 1 |
| Policeman | 1 |
| Grain buyer | 1 |
| Coal merchant | 1 |



Table 32 also shows that a very large number of those who go into retailing have neither experience nor knowledge of the business. "Anybody can keep store" is the slogan. It seems a matter for small wonder, then, that so few are able to succeed.

**Study of Retail Trade Mortality in Buffalo, 1918-1928.**—An interesting and careful study of the changes going on in ownership and management personnel of retail stores in groceries, drug stores, hardware stores, and shoe stores was made in Buffalo for the period from 1918 to 1928.[8] In this study, changes were studied as presented in Polk's Buffalo City directories.

The results of the study are very enlightening. In the grocery field, approximately 60% of all concerns established lasted but 1 year or less. In the shoe and hardware lines the mortality during the first year was found to be 43.8% and 34.5% of those who entered, respectively. In the drug field only 26.6% withdrew during the first year.

**Number of Changes Per Year in Various Retail Trades.**—Additional light on the failure rate in the retail business, or at least on the rate of change in ownership of retail concerns is contributed in a table presented below showing the average number of new businesses and changes reported annually in each of the more important retail lines in the United States by the Commercial Service Company, a concern specializing in reporting business changes.

**Causes of Failure.**—For the causes of failure among retailers we may refer to the classifications of Dun and Bradstreet. While these concerns count only failures of a limited class, the causes that operate to drive dealers over into this

[8] E. D. McGarry, Retail Trade Mortality in Buffalo, 1918-1928. Bureau of Business and Social Research, University of Buffalo.

TABLE 33. AVERAGE NUMBER OF NEW BUSINESSES AND CHANGES REPORTED ANNUALLY IN EACH LINE FOR ENTIRE UNITED STATES

(From Commercial Service Company, New York)

| | (Approximate) |
|---|---|
| Automobile dealers | 6,000 |
| Automobile accessory retailers | 4,000 |
| Automobile repair shops | 2,000 |
| Bakers | 3,500 |
| Book retailers | 500 |
| Building supply dealers | 1,000 |
| Cafeterias | 2,500 |
| China retailers | 500 |
| Cigar and tobacco retailers | 2,000 |
| Cloak and suit retailers | 4,000 |
| Clothing retailers (men's) | 6,000 |
| Confectionery retailers | 6,000 |
| Delicatessen stores | 1,000 |
| Department stores | 1,000 |
| Drug retailers | 5,000 |
| Dry goods retailers | 5,000 |
| Electrical stores | 2,000 |
| Filling stations (oil and gasoline) | 7,000 |
| Florist retailers | 1,000 |
| Furniture retailers | 4,000 |
| Garages, public | 10,000 |
| General stores | 7,000 |
| Gift shops | 1,000 |
| Grocery retailers | 16,000 |
| Hardware retailers | 4,000 |
| Harness retailers | 500 |
| Hat and cap retailers | 1,000 |
| Hotels | 7,000 |
| Implement retailers | 1,000 |
| Jewelry retailers | 2,000 |
| Lumber retailers | 2,000 |
| Lunchrooms | 2,000 |
| Meat markets | 5,000 |
| Men's furnishing retailers | 5,000 |
| Millinery retailers | 3,000 |
| Musical instrument and phonograph retailers | 3,000 |
| Notions retailers | 2,000 |
| Paint retailers | 1,500 |
| Piano and organ retailers | 1,500 |
| Pool and billiards | 1,000 |
| Queensware retailers | 500 |
| Radio retailers | 3,000 |
| Restaurants | 10,000 |
| Shoe retailers | 5,000 |
| Sporting goods retailers | 1,000 |
| Stationery retailers | 1,000 |
| Tailors | 2,000 |
| Tea and coffee retailers | 1,000 |
| Tea rooms | 1,000 |
| Tire and vulcanizing shops | 2,000 |
| Toy retailers | 1,000 |
| Variety and 5 and 10 cent retailers | 4,000 |
| Women's furnishings retailers | 3,000 |
| Advance building reports of new stores | 25,000 |

These figures are for the entire country. Proportionate figures would apply for sections comprising one-third or one-half of the country, and so on.

class of failures are everywhere operative and probably in about the same proportions as found by Dun and Bradstreet. These causes, stated generally, are as follows:

**Failure Rate High.**—In conclusion, the failure rate among retail dealers is very high. It was high in 1912. It had been high in previous years. It is high at the present time. It should be noted, however, that but very few of the failures in the retail business reach the stage of bankruptcy proceedings. The large majority of such cases are averted by the dealer settling up or selling out before the crash. The fact that a large number



TABLE 34. BRADSTREET'S CLASSIFICATION OF BUSINESS FAILURES*

| | |
|---|---|
| BEGINNER'S HANDICAPS: | |
| Lack of capital | 29.7 |
| Incompetence | 30.2 |
| Inexperience | 4.6 |
| Unwise credits | 2.0 |
| | 66.5 |
| PERSONAL FAULTS OF CHARACTER: | |
| Fraud | 10.3 |
| Neglect of business | 2.0 |
| Personal extravagance | .7 |
| | 13.0 |
| FACTORS THREATENING SUCCESS: | |
| Competition | 1.9 |
| Failure of others | 1.3 |
| Speculation in other business | .8 |
| Specific conditions (disaster, etc.) | 16.5 |
| | 20.5 |

* Adapted.

of small dealers own only their stock and rent their buildings makes it easy to sell out and settle with wholesalers or others to whom money is due whenever the dealer finds himself going hopelessly backward. It is the business of the credit men of wholesale houses to watch over all concerns exhibiting weakening tendencies, and to shut off credit and make prompt collections as soon as the dealer's own capital begins to diminish. Thus, while the dealer may lose a large part or all of his own investment, the creditors may be able to come out of the settlement with little or no loss.

**The Wholesaler and Retail Failures.**—Most failures in the retail business are simply closed out in a quiet, informal way, and the public never learns just what the exact financial situation was. A new man with new capital seems to be ready to slip in and try his fortune as soon as the old dealer steps out. No lesson is drawn from the accumulated experiences of the vast number of failures that have taken place in the past.

TABLE 35. CLASSIFICATION OF CAUSES OF FAILURES IN THE RETAIL BUSINESS

(By O. W. Mayer, Credit Manager, Steele, Wedeles and Co. Adapted from *System*, February, 1914.)

| | |
|---|---|
| BEGINNERS' HANDICAPS: | |
| Lack of capital | 20.5 |
| Incompetence (including inexperience) | 24.0 |
| Unwise credits | 4.4 |
| General expense too high | 3.0 |
| Poor location | 2.2 |
| Expansion (branch stores) | 2.0 |
| | 65.1 |
| PERSONAL FAULTS OF CHARACTER: | |
| Fraud | 4.0 |
| Neglect of business | 4.0 |
| Personal extravagance | 4.8 |
| Intemperance | 2.0 |
| | 14.8 |
| FACTORS THREATENING SUCCESS: | |
| Loss by storm, flood, fire, etc. | 3.8 |
| Sickness | 3.5 |
| Failure of others | 2.6 |
| Speculation | 2.1 |
| Competition | 1.4 |
| Closed by "sharks" | 1.2 |
| Robbery of store | 1.0 |
| Death | .8 |
| Loss in contracts | .8 |
| Miscellaneous causes | 2.9 |
| | 20.1 |

For the most part the system by which elimination takes place is such as to preclude the outside public from gaining from the experiences of others. Those who do know most about it—the wholesalers—find it contrary to their own interests to check people from going into business, even when the chances of ultimate failure are very great. A new store is a new customer, and the wholesaler considers that by keeping close watch of its development through his credit department, he may be able to pull out whole before the inevitable end. Besides, the final outcome is not always failure in spite of all signs and indications. Some of these new men do make good, and it is worth while making them customers when they are just starting in business.



Failures among retailers are a continual source of trouble and expense to wholesalers, but the incentive to supply a new man with goods when he comes with cash in hand, and a certain line of credit for a while at least, is stronger than the incentive to advise him to keep out of the retail business. If one wholesaler does not supply him, another will. So, while wholesalers as a rule are vitally interested in seeing their customers succeed, they are not in position to act as judges on who should, and who should not, enter the retail business.

**How Relief May Come.**—Relief, if it is to come, must come through a system of general education through press and schools in the elements of distribution of goods, in the work that must be done in the vocations within this field, in the qualifications that are required of those who take up this work, and in the perils that attend it. Something could be done by means of public regulation, perhaps, through a license system, to limit the number of persons who are to engage in retail trade, and to give the opportunity to prescribe or insure that all of those who do enter shall have some fitness and necessary qualifications for serving the public properly. But it is not likely that such regulations of the retail business can be carried out in this country. The inherent belief in the freedom of industry and of trade that is the product of two hundred and fifty years of thinking among English-speaking people, will hardly permit any sudden change to a practice involving such regulation, no matter how necessary such a change might be.

# CHAPTER XV

## RETAILING ABROAD

The retail business as conducted in other countries has deep interest for American students. Much of what makes up our retail policies and methods has come from abroad. American methods are, in turn, studied and copied in other countries. Although there are wide differences in many details, systematic comparison may be of great value. American retailers may learn many things by study of retailing abroad. There are numerous points upon which retail institutions elsewhere can enlighten retailers in this country.

Within the scope of a single chapter, such as follows, it is clear that only some of the more general facts concerning retailing in a few of the other nations can be presented. For the present, a description of the development of retailing in the Latin-American countries, in South Africa and Australia must be omitted. Because the origins and relationships of American retailing lie in Europe, most of the chapter will be devoted to European retailing.

1. **Canada.**—In Canada the development of retailing has been much the same as in the United States, beginning with the early French trading posts of the seventeenth century, the general merchandise stores of the eighteenth and nineteenth centuries, followed during the nineteenth century by the independent unit stores. In the latter part of the nineteenth century, while department stores and mail order houses were coming into existence in the United States, a similar development was occurring in Canada. In recent years, chain stores have become important factors. In proportion to population, the development of these types of stores has been fully as extensive in Canada as in the United States.





The most important retail institutions in Canada are the magnificent, modern department stores owned and operated by the T. Eaton Co. Ltd., the Robert Simpson Co., and the Hudson Bay Co.

A brief description of the Hudson Bay Co. was presented in the chapter on chain stores.

Figure 59. The Original Eaton Store in Toronto

Opened in 1869. Typical retail store serving as dwelling house above the ground floor. This illustration and the two following pictures are reproduced here by courteous permission from "Eaton's of Canada," by S. H. Ditchett.

The T. Eaton Co. is an institution with remarkable ramifications. It not only conducts several very large department stores in the principal cities of Canada, including Toronto, Montreal, Winnipeg, and Vancouver, but also, through a company known as Canadian Department Stores, Ltd., it has smaller department stores in nearly all of the medium-sized cities of the Dominion as well. There were at the beginning of 1929, altogether, nearly 50 department stores in this organization. The T. Eaton Co. also operates a chain of groce-

terias in Toronto and other eastern cities. Its mail order business is the most extensive in the Dominion of Canada. It has mail order distributing depots in over 20 cities from which goods are shipped to mail order customers.

Figure 60. The Eaton & Co. Building Erected in 1883
Note its plate glass display windows and spacious light well. This was regarded as a fine specimen of store designing and equipment during the 1880's. (From "Eaton's of Canada," by S. H. Ditchett.)

The sales of the T. Eaton Co. have not been published, and estimates made by outsiders vary so widely as to indicate their baselessness. It is roughly guessed that the total sales of this organization through all outlets, including the mail order business, may amount to more than $300,000,000 yearly. The



T. Eaton Co. is commonly said to be the largest mercantile institution in the entire British Empire.

The Robert Simpson Co., next in size, conducts a chain of excellent department stores among which the most important are located in Toronto, Montreal, Winnipeg, and Halifax. It also has a very extensive mail order business.

The Robert Simpson Co. has also built up a very extensive business by telephone. Telephone selling is a new

Figure 61. The Present Plant of the T. Eaton Co.
From "Eaton's of Canada," by S. H. Ditchett.

development in retail distribution. The telephone has long been effectively used as a service medium for customers. Making the telephone an instrument of aggressive selling is another matter. This probably has been carried farther in the Robert Simpson store in Toronto than in any other in the world. It employs constantly more than 100 skilful saleswomen in securing business by telephone. It has had as high as 26,000 telephone sales in a single day. It secures a volume of more than $2,000,000 annually by telephone. Instead of ordering goods

by mail, customers are being trained to use their catalogs and telephone their orders to the nearest Simpson store. There the telephone orders are handled in the same way as regular mail orders.[1]

**Chain Stores.**—During recent years, chain store growth in the grocery, drug, variety goods, and other fields, has been very rapid, and this growth has been marked by developments of mergers much the same as in the United States. Among the larger grocery chains in Canada are the Dominion Stores, Ltd., with headquarters in Toronto, Pure Food Stores in Montreal, and Loblaw Groceterias Ltd. in Toronto. The Loblaw chain also has extensive developments in the United States. A recent report indicates that the Dominion and Loblaw stores have been combined into one large chain system.

Several of the chain store systems in the United States also have established themselves in Canada. Among these are the Great Atlantic & Pacific Tea Company, F. W. Woolworth Co., Liggett's, S. S. Kresge, J. C. Penney Co., Schulte-United, and Piggly Wiggly.

There are marked developments of the chain idea in other fields. The Bank of Canada, for example, has over 600 branches scattered throughout the Dominion.

In the face of the rapid development of chains and of powerful department stores, the independent retailers of Canada have apparently gone farther than in the United States in the direction of organizing and operating cooperative buying groups. There are estimates indicating that the total volume of sales through retail stores that are members of cooperative groups is even greater than the sales through the chain store systems.

Consumers' cooperation has made a strong place for itself in rural western Canada and also in the East in Nova Scotia. The consumers' cooperatives have successfully met the competition of other types of retailing, and it is believed by some that they may continue to grow extensively.

[1] J. George Frederick, Selling by Telephone.



In western Canada, particularly in Vancouver, there is another important factor in the retail situation. A large proportion of the total retail trade, particularly in foodstuffs, is carried on by orientals. Reports indicate that the Chinese retailer has been able to hold his own successfully against the keenest of chain store competition.

**2. Great Britain.**—England is the land of small shops. In the historical survey presented in Chapter III, attention was drawn to the many types of retail institutions found in England in past centuries. The great diversity of retail shops which existed during the eighteenth century and continued through the nineteenth century has helped to fix the character of present-day British retailing.

Following the Industrial Revolution going on in the early part of the nineteenth century, the mass production in the textile lines led to the establishment of larger and more important dry goods stores, some of which have continued in existence down to the present time. Among these may be mentioned Thomas Wallis, Ltd., founded in 1826, and Peter Robinson, in 1833. James Shoolbred's and William Whiteley's both date back beyond the middle of the nineteenth century.

Although there are now many large retail institutions in England much the same as in the United States, great retail store buildings are the exception rather than the rule. English department stores, or retail distributing houses as they are called, where they exist, are generally aggregations of many small shops. Due to municipal building regulations, retail stores are rarely more than five or six stories high. The big retail distributor in England is but the owner of a collection of many small shops.

Retail distributing houses began to develop in England somewhat later than in the United States. Some have shown

a marked and rapid growth during the past generation. The largest are John Barker & Co., Harrods, and Selfridge. Each of these concerns is said to have retail sales in excess of £6,000,000, or more than $30,000,000 per annum. Other important retail distributing houses in London include William Whiteley's; James Shoolbred's; Henry Glave's; Gamage's; Marshall & Snelgrove; Thomas Wallis; Peter Robinson; Liberty & Co.; Swan & Edgar; and Dickins & Jones. There are also several others. The Army and Navy and the Civil Service Supply Cooperative Distributors are also highly important retail establishments of the department store type.

Outside of London, among the largest concerns, are Lewis' three stores located in Manchester, Liverpool, and Birmingham; Cooper & Co. with several stores in Scotland and northern England; and Waring & Gillow in Liverpool and Manchester.

—The trend toward mergers among the British is exceedingly well-marked. The largest organization of retail distributing concerns is Debenham's, Ltd., which, at the opening of 1929, included more than 70 stores scattered throughout Great Britain. Debenham's was originally a wholesale house which, over a period of several years, came into possession of many well-established retail stores. Next, a holding company, known as Drapery Trust, Ltd., was established which obtained control by purchase and otherwise of a large number of retail stores in London, in the provinces, and in Scotland. To this organization were also added some well-known dry goods and apparel chains such as Bobby & Co., a chain of apparel shops operating in southeastern England; Marshalls, Ltd., operating a chain in north central England; and Plummer-Roddis, Ltd., operating a chain in southwestern England. This aggregation has given Debenham's, Ltd. the leadership, in point of size, over all other British retail dry goods and apparel institutions.

The second largest organization is Selfridge & Co., centering in the very fine department store on Oxford Street, Lon-

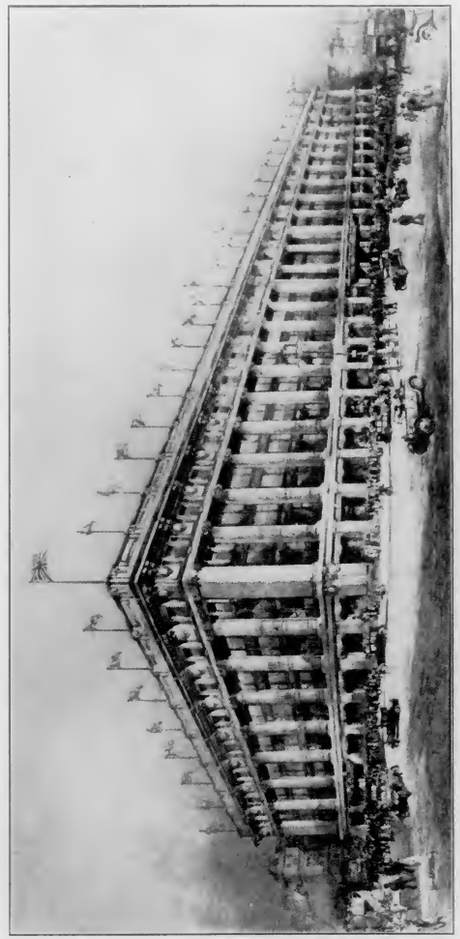

Figure 62. Selfridge & Co. Ltd., London
One of the three largest retail stores in England. A very attractive building in classic design.

Figure 63. Harrods Ltd., London
One of the largest, best-known, and successful retail distributing establishments in England.

don, established in 1909, by H. Gordon Selfridge, a former associate of Marshall Field in America. It was the first department store in London to have a typical modern department store building, a single, large unit, planned from the start to render the best possible department store service. Although now a score of years old it is still a model in many respects for retail institutions the world over.

The Selfridge store proved successful from the start. Conservative London was won to this new type of store and gave its patronage liberally. Shortly after the World War a number



of provincial stores were acquired, and in 1927 William Whiteley's, Ltd. of London was added to the organization. More recently, Selfridge & Co. has established a chain of 3d. and 6d. stores, much like the Woolworth 5 and 10 cent stores, known as John Thrifty, Ltd.

H. Gordon Selfridge, Sr., continues as the guiding genius of these developments bearing his name. His son, H. G. Selfridge, Jr., though a young man, has shown remarkable business and organizing ability. He is now the directing head of the chain of about 20 provincial stores. Under his direction it may be expected that this concern will continue to grow.

Harrods, Ltd. also owns and controls Dickins & Jones, Ltd. in London; Kendal Milne Co. in Manchester; and has a branch store in Buenos Aires under the name of Harrods, and a chain of many stores in other South American cities under the title, Gath & Chaves, Ltd. Harrods has shown no recent

Figure 64. Harrods Millinery Salon
From "The Secret of Harrods."

Figure 65. Harrods Men's Tailoring Section
From "The Secret of Harrods."

tendencies toward expansions in other stores in England. Swan & Edgar in London, formerly owned by Harrods, was sold and is now a part of Debenham's, Ltd.

John Barker & Co. owns two other stores in London and controls a chain of cake and other baked goods shops named Zeeto, Ltd.

Sir Woodman Burbridge, head of Harrods, Sir Sydney M. Skinner of John Barker & Co., H. Gordon Selfridge, and Percy A. Best of Shoolbred's, to mention but a few, may be classed among the ablest retail merchants in the world.

There is an important mail order business in Great Britain but, unlike the experience of America, this business has developed as a part of the large shops in the metropolitan centers. John Barker, Harrods, and Selfridge, and the other large stores in London issue catalogs and circulars periodically to large



lists of customers. Great numbers of orders are received, and because of the small size of England, together with excellent transportation facilities, it is possible to make deliveries anywhere within a day, or two days at most. The larger London retail stores also enjoy a very considerable mail order business from the British dominions and colonies. This is promoted by means of catalogs, by direct mail matter, and by advertising in British periodicals which go to all parts of the Empire.

**Consumers' Cooperatives.**—The consumers' cooperative organizations, as indicated in the chapter on consumers' cooperative stores, are very powerful in Great Britain. There is no single retail institution comparable in size or power to the cooperative. It has over 10,000 retail shops and its sales amount to more than $1,000,000,000 per year. The most important competitive struggle going on in England today is between the

Figure 66. Harrods Silver Salon
From "The Secret of Harrods."

INTENTIONAL SECOND EXPOSURE

Figure 65. Harrods Men's Tailoring Section
From "The Secret of Harrods."

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Figure 67. Ladies' Footwear at Harrods
From "The Secret of Harrods."

Figure 68. Harrods Fur Salon
From "The Secret of Harrods."





consumers' cooperatives and the rapidly rising chain stores, or multiple shops as they are called.

**Chain Stores.**—Among the largest and best-known multiple shops in the grocery and food lines are, Lipton's, Ltd., the Maypole Dairy Co., Home and Colonial Stores, and International Tea Co., each of which has about 1,000 shops or more.

In the drug field, Boots, Ltd., owned by Drugs, Inc., the Liggett organization of the United States, operates more than 850 stores. This organization, together with several other chain concerns, dominates the drug store field in England.

Chain stores or multiple shops are likewise very important in the sale of boots and shoes, in tobacco products, as well as in variety goods. The F. W. Woolworth Co., has numerous 3d. and 6d. stores scattered over Great Britain, and Marks & Spencer operate in a field in England comparable to that of the business of the W. T. Grant Company in the United States. It sells no goods over 5s. in price.

The leading chain organization in the restaurant business is J. Lyons & Co., which has several hundred popular restaurants in Great Britain. It is the Childs of Great Britain but has more outlets than the Childs restaurants.

**Independent Stores.**—The power of the large metropolitan retail distributors and of the consumers' cooperatives, together with the recent development of multiple shops, has made the situation very difficult for the independent shop-owners in Great Britain, but, despite the competition of these giants of retail trade, it appears that the small independent shopkeepers are able to hold their own. To do so, however, intensive efforts have been made in several directions such as:

1. Agreements with manufacturers, particularly of branded goods, for control of resale prices through such organizations as the Proprietary Articles Trade Association (P. A. T. A.) in the chemists' and drug lines.
2. Through carefully worked out systems of education for

INTENTIONAL SECOND EXPOSURE

Figure 67. Ladies' Footwear at Harrods
From "The Secret of Harrods."

Figure 68. Harrods Fur Salon
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2. Through carefully worked out systems of education for

persons entering the retail trade as provided by the Chartered Institute of Grocers.

3. By a very intensive development of cooperative buying on the part of groups of independent retailers in all parts of Great Britain.

Retail trade associations, which exist in all of the more important lines of retail trade, appear to be more closely knit together in Great Britain than in America. Their efforts are also apparently more definitely applied toward meeting the specific problems of competition than has heretofore been the case in this country. The retail trade in England probably presents a condition of maturity toward which American retail trade is rapidly growing.

**Comparison of British and American Retailing.**—Among the outstanding differences in conditions and methods of operation in England as compared with the United States, perhaps the most important is that the gross margin upon which the retail business is conducted is considerably lower than in the United States. The expenses of doing business are likewise lower. The retail profits of successful concerns are very much the same. Operating expenses in American department stores, as we shall see in a later chapter, range from 27% to 30% of sales. In Great Britain, the operating expenses of similar classes of institutions range from 19% to 23% of sales. Salaries and wages are generally considerably lower in England than in the United States. Rentals are also lower. Advertising, on the other hand, is higher but there are many retail stores that use very little outside publicity and have succeeded in spite of lack of advertising.

In general, retail store organization is not carried to the point of division of labor common in American stores. There are fewer non-selling employees in English stores. Salespeople do more of the non-selling work during their spare time. The hours of work are commonly from 8:30 in the morning to



6:30 in the afternoon. Employees are generally allowed a half-day off per week. Unmarried employees in many retail institutions live in quarters provided by the retail institution. This is known as the "living-in" system. Most British retailers attempt to give careful training to employees, not only in courtesy to customers but also in intimate detailed knowledge about the merchandise handled. The labor turnover is very much lower than in the United States. Large department stores in London are said to have rarely more than a turnover of 25% in employees per year, whereas in the United States a turnover of 100% per year is not infrequent.

**3. France.**—French cities and towns are crowded with small shops of all kinds. These little shops are usually conducted by families residing in the same building, either back of the shop or in the story above. Often while the husband waits on customers in the front of the store the wife acts as cashier and bookkeeper. France is a country, however, of great extremes in the matter of retail institutions. It not only has some of the smallest shops in the world but likewise some of the largest department stores. The Bon Marché, one of these giants, is credited with being the first department store ever established.

The Bon Marché was founded in 1852 by M. Jacques Aristide Boucicaut (1809-1877), a self-educated man who had served an irregular apprenticeship as a peddler's assistant. His business proved immensely successful.

Under the régime of Napoleon III, the Bon Marché, in common with all Paris industries, grew very rapidly. By 1869, shortly before the end of this régime, the sales of the Bon Marché had risen to 21,000,000 francs, Émile Zola, in *Au Bonheur des Dames,* gave it and the Louvre, another Paris department store that came into existence after the Bon Marché, a most glowing description.

After M. Boucicaut's death in 1877, the Bon Marché was managed until 1887 by his widow, a woman of very great abil-

**Figure 69. The Bon Marché of Paris**

The first modern department store in the world. Established in 1852. (From "Kauf und Warenhäuser.")

ity. The business was then turned into a joint stock company, the stock of which had been bequeathed by M. and Mme. Boucicaut to the employees of the store.

Early in life, M. Boucicaut had been greatly impressed by the possibilities of profit-sharing. French economists and industrialists of the middle nineteenth century studied this proposal deeply. Boucicaut set out to do in his big store what LeClaire had done in the house painting business and Godin in the iron industry. A provident fund and an old-age pension system were adopted, and finally the entire business was turned over to the employees.

For many years the Bon Marché was one of the leading examples of profit-sharing in the entire business world. Each employee has the right to vote. The affairs of the business are managed by a board of three directors, each elected by the employees for a period of three years. All employees after a period of service become part owners. The direction of the store has been very keen and effective.



The Bon Marché conducts several branches in France, Algiers, and Egypt. It also has acquired possession of the Palais de La Nouveauté, formerly Dufayel's. This concern conducts a very large instalment business in furniture and home furnishings. Its goods are successfully sold on easy payments not only in Paris but through a large number of branches or agencies scattered throughout France.

The sales of the Bon Marché in Paris are now probably in excess of 600,000,000 francs, and the sales of the Palais de La Nouveauté and branches are said to be over 200,000,000 francs.

The Bon Marché was not only the first department store but it served as the inspiration to the establishment of department stores in all parts of the world. A. T. Stewart in New York, John Wanamaker in Philadelphia, Eben Jordan in Boston, and Marshall Field in Chicago all credit M. Boucicaut as the source of many of their ideas. It is known that these merchants and many others followed closely the developments of M. Boucicaut with deep interest. Very early in the 1850's, M. Boucicaut established policies and methods which were then revolutionary, such as the sale of goods on approval, guarantees of satisfaction, and of sales at fixed, marked prices. These were radical steps in retailing in the middle of the nineteenth century.

The Louvre was founded in 1855 by Chauchard and Hériot. Chauchard continued in charge until 1885. During 1885-1887, the business was directed by a brother of Hériot, one of the founders. In 1887, it was made a joint stock corporation. The Louvre aimed almost from the start to serve the people of means rather than the masses. Even now it is said to have a big volume of business with the families making up the French aristocracy. Its silk and other dress goods departments are world-famous. Its January white goods sales are historic events. The Louvre employs about 5,000 people and has an annual sales volume said to be over 650,000,000 francs.

Figure 70. The Louvre Department Store, Paris

The second department store to be established in Paris. Typically French in architecture. Famed for its substantial trade with well-to-do people, its unusual displays of dry goods, particularly linens and other yard goods, and its white goods sales. Reproduced by courtesy of *Nugents—The Garment Weekly*, May 8, 1928.

Le Printemps, whose sales exceed a billion francs a year, is said to be the finest department store in Europe. It was founded about 1860 by M. Jaluzot, a former chief buyer under M. Boucicaut in the Bon Marché. The Bon Marché aimed to serve the great masses of the people of Paris. M. Jaluzot determined that Le Printemps should be a store appealing to the people of wealth and good taste. This institution also grew very rapidly. Its present head, M. Pierre La Guionie, a former silk buyer under M. Jaluzot, has carried on the business with marked success. The old buildings were destroyed by fire in 1923 and, in the new store, rebuilt in 1924, modern mechanical devices such as are in common use in the United States, cash registers, pneumatic tubes, sprinkler systems, gravity conveyors, and modern heating and lighting systems, were installed. M. La Guionie is reported to have made a special



study, prior to rebuilding his store, of American store architecture.

Le Printemps maintains manufacturing connections in apparel and in furniture and home furnishings. It is particularly famous for its lavish merchandise displays and exhibitions. It has some manufacturing connections and enjoys a large trade coming from outside of Paris.

The Samaritaine, the R. H. Macy & Co. of Paris, with a sales volume well over 1,000,000 francs per year, was founded by M. Cognacq and his wife. This business is said to be conducted on a margin of about 25% of sales as against a margin of 33% or more in other Paris department stores. Unlike the R. H. Macy & Co. in New York, a large part of the Samaritaine business is conducted on the instalment basis. Its sales policies are directed specifically at securing the great popular-price trade of Paris and surrounding country. It employs 8,000 or more people.

Figure 71. The Samaritaine, a Large Department Store, Paris

Both buildings shown in the picture are occupied by the store, a large and successful institution. Reproduced by courtesy of *Nugents—The Garment Weekly*, May 8, 1928.

INTENTIONAL SECOND EXPOSURE

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Although its trade is largely of the masses, it has some remarkably well-developed departments. It is said to have the best fur department in Paris, not excepting even Révillon Frères. Its furniture and home furnishings departments are most extensive.

The Galeries Lafayette, the youngest but in some respects the most aggressive of the five big department stores of Paris, was founded in 1899 by M. Alphonse Kahn and Théophile Bader. M. Kahn had been running a retail store in Paris for a number of years preceding, but the Galeries Lafayette began in this year. One of the objects of the establishment of the Galeries Lafayette seems to have been to give competition to Le Printemps which had antagonized large financial interests in Paris. In the establishment of the Galeries Lafayette, it has been said that extensive aid was given by bankers including the Rothschilds.

From a very small beginning in 1899, the sales volume of the Galeries Lafayette has steadily climbed upwards. It passed the billion franc mark in 1924-1925. As of 1928, its sales volume probably exceeded 1,200,000,000 francs.

The Galeries Lafayette operates large factories for the production of apparel and also has several retail branches. Unlike most of the other Paris department stores, most of this business is carried on for cash although it does have a credit department.

**Chain Stores.**—France not only holds the record for the first department store in the world, at least in modern times, but also the first of modern chain store systems, still in existence. The oldest chain in France is the Établissements Nicolas, dealers in wines. This concern was started in Paris over 100 years ago and has today over 200 branches, most of which are in Paris and its suburbs.

Despite this early beginning, the chain store movement remained largely dormant in France for many decades. During



recent years a rejuvenation of interest has occurred corresponding to the activity in establishing chain stores in the United States, Great Britain, and elsewhere.

The Docks Rémois is said to have been the first chain grocery store system founded in France. It started in Rheims in 1888. There are now more than 100 grocery chains with a total of 18,500 retail stores, with total annual sales amounting to nearly 6,000,000,000 francs. Chain grocery units of France are usually conducted by a manager and his wife. The manager receives a remuneration of about 5% of sales instead of a salary. Outside help is employed only in larger shops and by commercial managers. Among the larger chain store systems besides the Docks Rémois, there may be mentioned the Entrepôts de Grenelle, the Ruche Méridionale, and the Établissements Félix Potin.

Besides the branch systems maintained by the large Paris department stores already mentioned, there are at least 3 fairly well-developed department store chains operating in France. These include the Nouvelles Galeries, the Paris-France stores, and the Magasins Modernes stores. As of January 1, 1929, the first of these organizations had 26 units, the second 74 units, and the third 32 units.

There are also chain store organizations dealing in shoes, among which the Groupe Ehrlich, with about 500 stores, dominates the chain store shoe business in France. There are also several small chains selling men's apparel and furnishings and other lines.

**Cooperative Stores.**—As in England, the consumers' cooperative movement has an important position in France, although not nearly so powerful as in England. It is estimated that there are in France at least 3,500,000 members of retail cooperative societies owning about 7,500 retail stores, with an annual volume of business estimated at 3,500,000,000 francs. The cooperative stores are usually small and their sales are

largely made in foodstuffs, although there is a considerable business in shoes, underwear, and furnishings as well.

A great many independent retail shops in France are united in numerous groups for cooperative buying and there are also many small retailers who arrange to have their purchasing done for them through the large metropolitan retail organizations. Thus the buying departments of Paris department stores not only purchase for their own needs but act as wholesalers, or at least as purchasing agents, for many small stores scattered throughout France.

One of the Paris department stores whose central buying organization serves several hundred retail stores is known as the Magasins Réunis. This institution is said to act as the purchasing agent for not less than 300 stores in France alone, and performs buying services for several stores and chains in other countries also.

The Galeries Lafayette is carrying on an interesting experiment in completely dissociating its buying and its selling departments. The buyers have nothing to do with the sales departments of the store. Each sales department is managed by a department head or sales manager who orders such merchandise as he may need from the buying department of the organization.

**4. Germany.**—In Germany the retail trade presents a very high degree of organization and development. While small independent stores prevail in great numbers, here as elsewhere, there are numerous department stores, chain store systems, specialty shops, and consumers' cooperative stores. In the city of Berlin there are said to be 54 full-fledged department stores. In other large cities there are proportional numbers. There is, however, not a great deal of mail order business. The German people apparently prefer to do most of their trading near at hand and with institutions where they may first examine the merchandise before buying.



One of the characteristic features of trade in Germany is the highly developed condition of trade associations existing in every branch of trade. Manufacturers in nearly all lines are combined in large cartels and other organizations. Wholesalers are likewise well-organized. There are over 60 large retail trade associations representing as many lines of trade, which are in turn combined into one national organization, the National German Retail Association.

In addition to the usual list of matters given consideration by the individual trade associations, the National German Retail Trade Association serves its member organizations by efforts to secure favorable legislation and prevent unfavorable legislation affecting retailers. There are a great many government restrictions in German cities covering retail trade, and the lobbying function is both a necessary and important activity. The national association also represents the retail trade as a whole in all discussions of public policy affecting the retail trades such as tax problems, import and export questions, and so on. A large number of retail store employees, estimated at 40% or more of all such workers, are members of trade unions. Questions regarding working hours, holidays, and wages are considered not on an individual basis but by collective bargaining. There are even occasional strikes of retail trade employees.

Another characteristic of German retail trade is that most of it is conducted on a cash basis. A certain amount of credit accommodation is granted to customers of long standing, but there has been no development either of the regular credit business or of instalment selling in Germany comparable to that found in America. Efforts have been made in recent years to develop the instalment credit business, and while there has been some progress in this line it has usually met with considerable objection from large numbers of retailers as well as bankers and other business men.

Retail store buildings, particularly the department store and

specialty shop buildings, represent advanced forms of retail architecture. Most of the department store buildings are of recent construction, and instead of growing up in a haphazard way by combination of many small units, as was often the case in England, and as has been the case in several instances in this country, buildings have been constructed with the definite view of housing department store businesses. As a result they present an appearance of completeness and unity for their specific purposes not usually found elsewhere. A number of retail store buildings recently erected embody distinctly modern architectural designs. In fact, much of the modernistic art appearing in retail store architecture elsewhere originated in Germany.

German display methods are well advanced. Much ingenious art is expended both in window and store displays. Whereas English and French shops, as a rule, crowd their windows with as much merchandise as possible, German display methods lean in the direction of securing effective artistic presentations. German advertising methods, however, are not comparable to the display and copy work secured by the better stores in the United States.

Retail store employees, particularly in the larger stores, are highly organized and departmentized. The division of labor is carried much farther than in England and even in the United States. Department store salespeople rarely do any other kind of work but selling. Wide beginnings have been made in educational and welfare work for retail store employees, but it is probable that in these lines German retail stores have not gone so far as American retail stores.

German retail trade is characterized by very aggressive methods. Individual retailers as well as the large chains and department stores are everywhere interested in new developments, particularly if they offer any hope of easing the heavy burdens of competition.



**Consumers' Cooperatives.**—The consumers' cooperative movement is an important factor in German retail trade. It is not so successful as in England but there are a great many consumers' societies, and nothing but the very keen competition that exists among other types of retail institutions seems to prevent this movement from growing rapidly.

**Retailers' Cooperatives.**—Cooperation among independent retailers themselves prevails very widely. There are hundreds of retailers' buying associations or "bunds." There are said to be over 500 in the grocery trade alone. These local buying groups are in turn combined into larger organizations, one of which, the Edeka Verbund, with headquarters in Berlin, represents, directly and indirectly, from 65% to 75% of all the grocers in the German Reich. Unlike the independent retailer in the United States, who likes to paddle his own canoe, most retailers in Germany belong to associations or groups of one kind or another. While most of the cooperative buying groups are relatively small, there are some associations which number several hundred retailers.

**Vertical Combinations.**—During the period of the World War, many of the larger retail organizations established manufacturing connections. In fact, some of them were forced to develop factories in order that they might have goods to sell. As a consequence, there seems to be a great deal more of such vertical organization of retailers and manufacturers in Germany than in other countries. Judging from the statements made by German retailers in recent years, the manufacturing connections, particularly since 1920, have not been particularly advantageous. Manufacturing during recent years has been found a burden rather than an advantage. Most of the larger organizations retain their manufacturing connections, but probably would be glad to be rid of them if this were practically possible. Combinations of manufacturing and retailing will probably not again be highly desirable until production

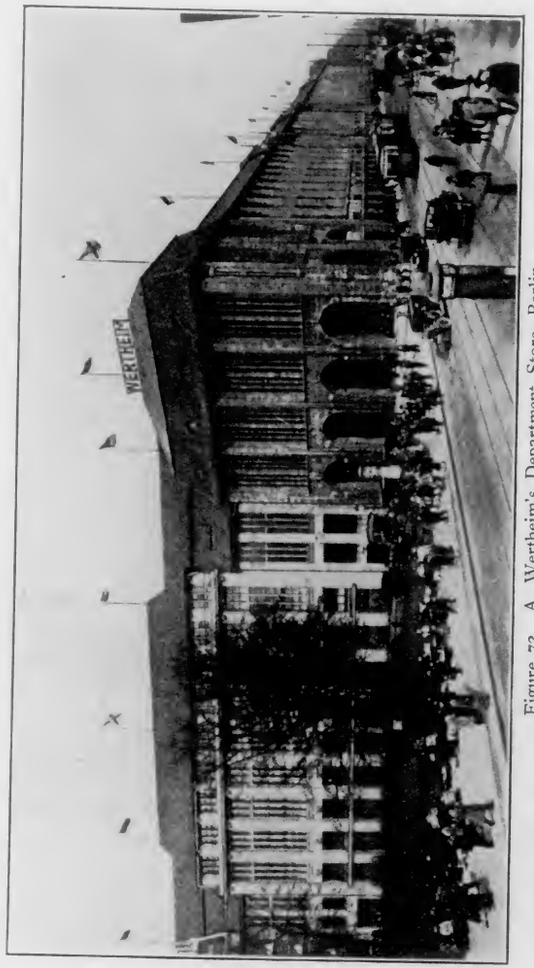


Figure 72. A. Wertheim's Department Store, Berlin
Probably the first of large retail stores to adopt a distinct, modernistic style of architecture. (From "Kauf und Warenhäuser.")
Erected about 1906.





levels are more completely stabilized and adjusted to consumption.

**Department Store Chains.**—Most of the department stores in Germany are tied up in chains or closely knit organizations. Among the best-known concerns in the German Reich are:

A. Wertheim's of Berlin with 6 other branches. The original Wertheim Berlin store has for many years been considered one of the most unique buildings as well as one of the largest department stores in the world.

Rudolph Karstadt A. G., with headquarters in Hamburg, established in 1889, now has more than 80 stores scattered throughout north German cities. It also owns a number of factories producing fabrics, outer apparel, underclothing, drapery, upholstery, and house furnishings, a part of the output of which is sold to wholesalers or exported.

Leonhard Tietz A. G., with headquarters in Cologne, operates more than 30 stores located mainly in western and south

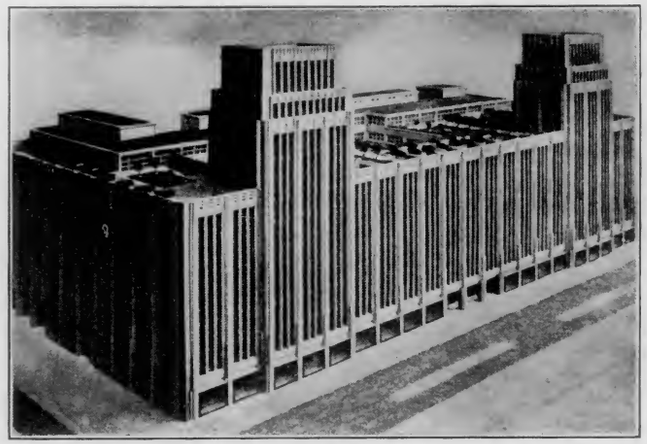

Figure 73. Rudolph Karstadt Department Store, Berlin
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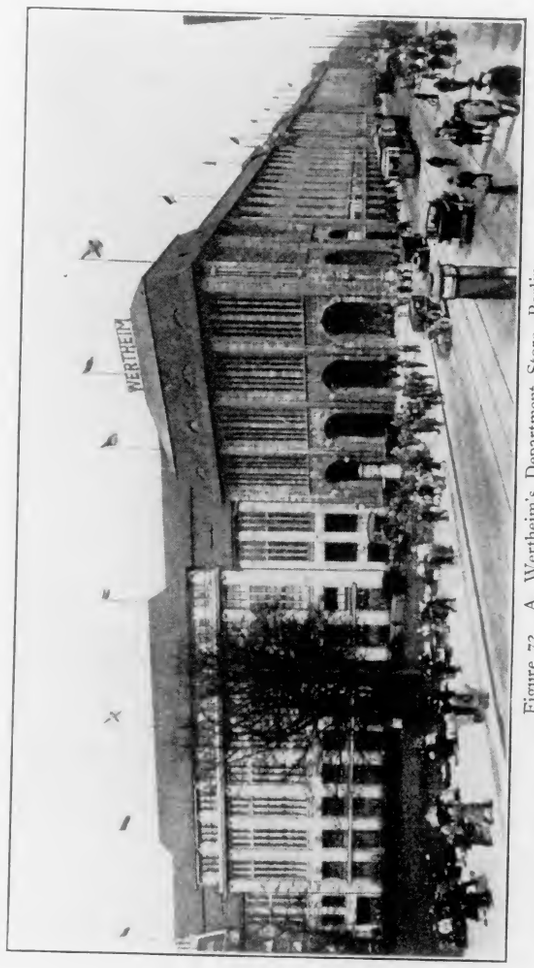
INTENTIONAL SECOND EXPOSURE

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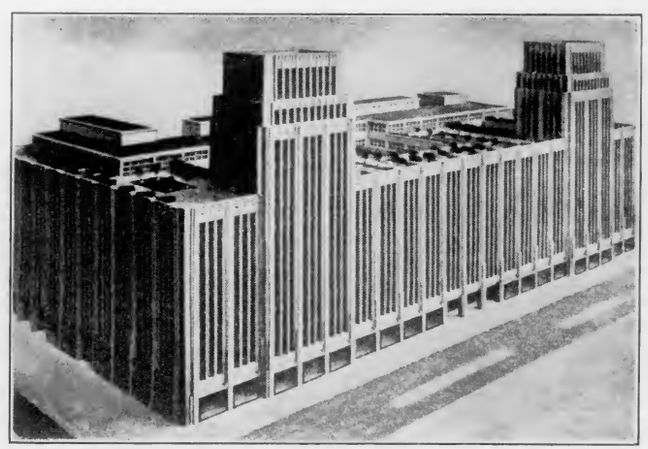

Figure 73. Rudolph Karstadt Department Store, Berlin
(From "Kauf und Warenhäuser.")

Figure 74. The Leonhard Tietz Department Store, Düsseldorf
Reproduced by courtesy of the *Dry Goods Reporter*.

central Germany, chiefly in the Rhineland. The Leonhard Tietz organization was founded in 1879. While it does not have as many stores as the Karstadt organization, its stores are larger and its sales volume competes with that of Karstadt.

Hermann Tietz A. G., with headquarters in Berlin, operates 20 or more stores in central Germany.

Other German department store organizations include:

M. Conitzer & Sons operating 20 stores
Lindemann & Co., also with 20 stores
I. Shocken & Sons, in Saxony, with 14 stores
Alsberg Bros., A. G. with headquarters in Cologne, operating 66 stores
Gustav Ramelow, A. G., of Berlin, with about 30 stores

All of the foregoing are associated or interrelated in various ways. There are several buying organizations used in common by the various concerns named.



**5. Other Countries.**—Department stores and chain store organizations are to be found in nearly all well-populated countries. Department stores antedate chain stores in practically all instances. Chain stores have their widest development in countries with dense populations and excellent transportation facilities. Everywhere chains are showing growth. Among the department stores found in other countries may be mentioned:

L'Innovation of Brussels, with branches in other Belgian cities
De Bijenkorf of Amsterdam and The Hague
La Rinascente, an Italian department store chain made up of about a dozen stores, with headquarters in Milan and branches in Rome, Naples, Florence, Turin, Genoa, etc. Its sales are estimated at about $40,000,000 per year
The Magasin du Nord and the Illum of Copenhagen
Bergstrom's and Nordiska Kompaniet of Stockholm
Mostorg of Moscow, including a central department store and 33 outlying shops controlled by the Moscow Soviet
Stockmann's of Helsingfors, Finland

Figure 75. The Hermann Tietz Store, Munich
(From "Kauf und Warenhäuser.")

INTENTIONAL SECOND EXPOSURE

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Figure 75. The Hermann Tietz Store, Munich
(From "Kauf und Warenhäuser.")

Figure 76. Swedish Department Store, Nordiska Kompaniet of Stockholm
(From "Kauf und Warenhäuser.")

**6. The Orient.**—The Orient, particularly India and China, is still the stronghold of the small, independent retailer. The average shop in the Orient is a one-story building with no doors or windows to the street. The entire front is closed by shutters at night and in the daytime the shutters are removed. Most of such shops are from 10 to 16 feet wide on the street, and the depth is usually about the same as the width. Shelving runs along the back of the storeroom and there may or may not be a counter. Surplus stock not on display in the shop is usually kept in warerooms at the rear. The retailer and his family also live in rooms or a building back of the shop.

Shops are generally owned by an individual, but there are also frequent copartnerships. The sons of the owner usually assist in the business. There are hired employees, but these are



usually to be found only in larger establishments. Wages of retail store employees amount to from $3 to $4 a week.

Oriental shops, as a rule, do not have windows and therefore do not use window displays. Instead of window displays the shops put out gorgeous signs which usually read vertically rather than horizontally. With the exceptions found in retail stores established by western people, there are no special bargain days or special sales in oriental stores. All days are bargain days. Purchases by the masses of the people are made for cash, but there is a certain amount of credit business granted to families of standing and wealth. Fixed selling prices are still the exception rather than the rule.

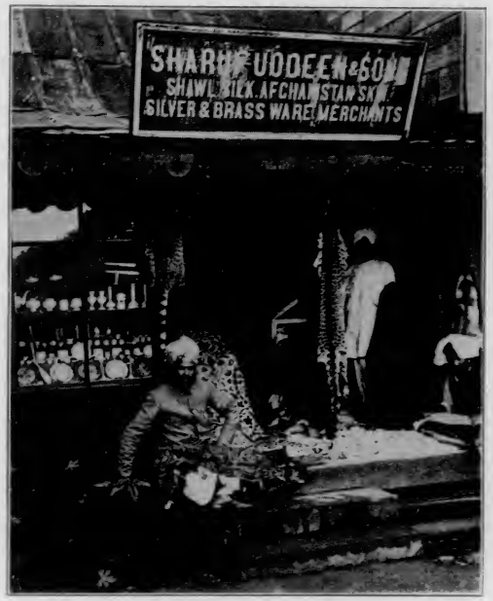


Figure 77. A Store in India
Reproduced by permission of Hugh Lyons & Company, Lansing, Mich., manufacturers of store fixtures, and of Underwood & Underwood, owners of the copyright.

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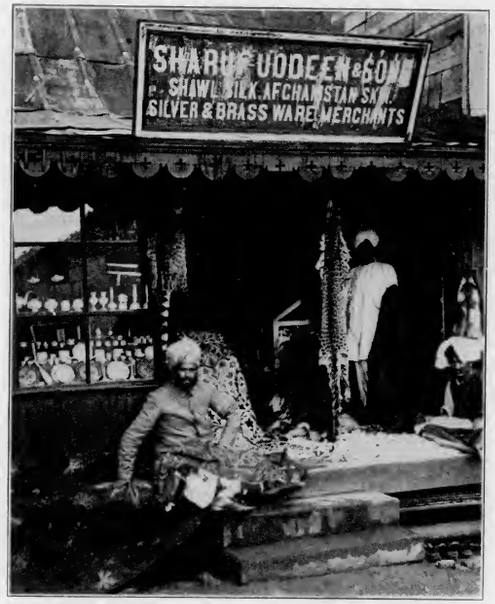


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Figure 78. Chinese Traveling Store
Reproduced by special permission of Hugh Lyons & Company, Lansing, Mich., manufacturers of store fixtures.

Department stores are to be found in the larger cities such as Bombay, Calcutta, Singapore, Hongkong, Canton, and Shanghai. In each of these places there are several well-developed organizations occupying excellent modern department store buildings. In these stores, in addition to goods of local or native manufacture, there are also imports from England, France, Germany, and America. These stores have plate glass windows and window displays as in stores in western countries.

7. **Japan.**—Retailing represents the widest possible extremes in Japan, extending from the most old-fashioned ancient oriental shops to the most modern well-equipped department stores to be found in the world.

Department stores have had a very rapid expansion during recent years, and in the larger cities of Japan, at least, are now



the principal retail outlets for many classes of both domestic and imported goods.

The largest department store organization in Japan is Mitsukoshi Ltd., with headquarters in Tokio. This is the pioneer department store in the Orient. Its annual sales are said to exceed $35,000,000. Although it did not become a department store organization until after the opening of the twentieth century, it has an unbroken history as a mercantile concern dating back to 1673. Mitsukoshi conducts branch stores in Osaka, Keijo, Kobe, Dairen, and Seoul.

Other important department store organizations of Japan include:

Daimaru, with headquarters in Kyoto, has large stores in Osaka, Kenazawa, Tokio, and Kobe.

Takashimaya, a very high-class department store organiza-

Figure 79. Mitsukoshi Department Store, Tokio, Japan
Japan's largest department store. Reopened in 1927 after being destroyed by the earthquake of September, 1923.

INTENTIONAL SECOND EXPOSURE

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**Figure 80.** K. Kawakatsu Takashimaya Department Store, Osaka, Japan

The picture admirably illustrates both the old and the new types of retail store architecture in use in Japan. The steel and concrete construction in the large, new store might be found in any modern department store in the larger cities of America or Europe.





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Working hours in Japanese stores run from 9:00 A.M. until 5:30 P.M., excepting during the mid-winter holiday season and at cherry blossom time, when they are kept open in the evenings as well. Japanese stores are open seven days a week but most of them allow their employees two holidays per month, namely, on the first and the fifteenth. Wages are paid either monthly or weekly. Good retail salespeople earn as high as 100 yen or $50 per month; most of them, however, receive less than that. The larger organizations have worked out extensive systems of education and welfare work for employees. Most of the young people now going into Japanese department store work have the equivalent of a high school education.

The department store as a retail institution is said to be exceedingly well-adapted to meet the demands of the Japanese people. Customers like to visit the larger stores and to enjoy their atmosphere and surroundings. Large crowds come to see the department stores in the same way that people elsewhere visit museums, and quite without any thought of making purchases. Extensive provisions are made for the entertainment and service of visitors, such as rest rooms, restaurants, roof gardens, and tea rooms, and bus transportation from railway stations and street-car terminals. One store has reported an

INTENTIONAL SECOND EXPOSURE

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average of over 60,000 visitors per day, with as high as 200,000 in a single day. The typical Japanese department store handles everything required by the Japanese family, including food, apparel, home furnishings, jewelry, cosmetics, toys, and so on.

Most of the retail trade in Japan is carried on for cash. Very little credit is extended. A large volume of department store business is also secured through the use of trade coupon systems as well as cash. Customers make purchases of these coupons in advance and use them as needed in the purchase of goods.

These coupons are very similar in appearance and in use to the holiday gift certificates much used by American stores and used chiefly during the Christmas holiday season. In Japan, however, the use of these coupons is very much more extensive and is not limited to any particular time of year. Such coupons or merchandise tickets, as they are popularly called, are even used as currency in Tokio and other large cities. Their widespread use has raised a storm of protest from small retailers and other businesses and it is likely that their issue may be regulated in the future.

It is of interest that merchandise coupons, so widely used in Japan, are also widely used in other parts of the Orient. In Australia and New Zealand, the "cash order" system, as it is there called, has definitely come up for public regulation.

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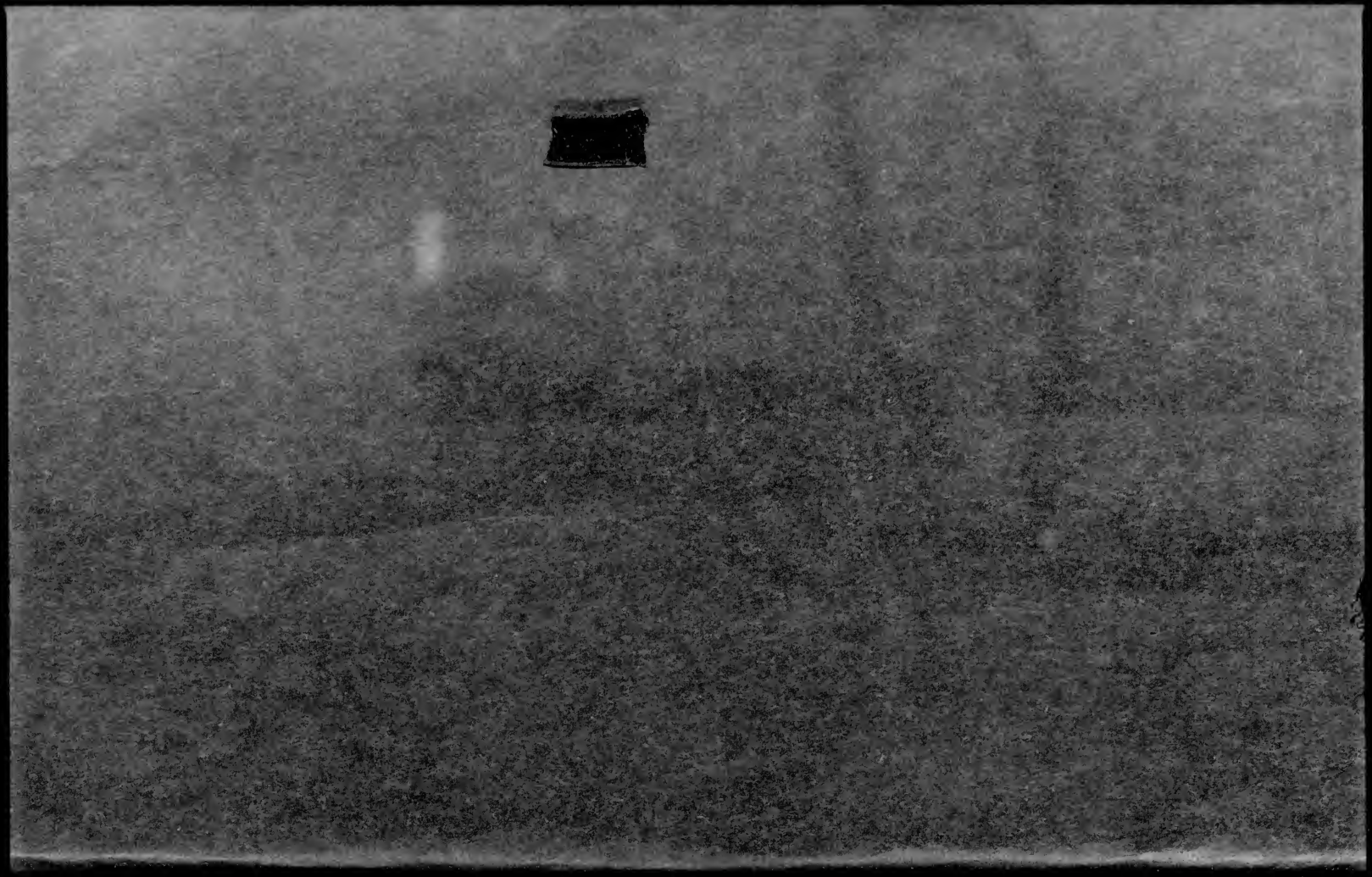

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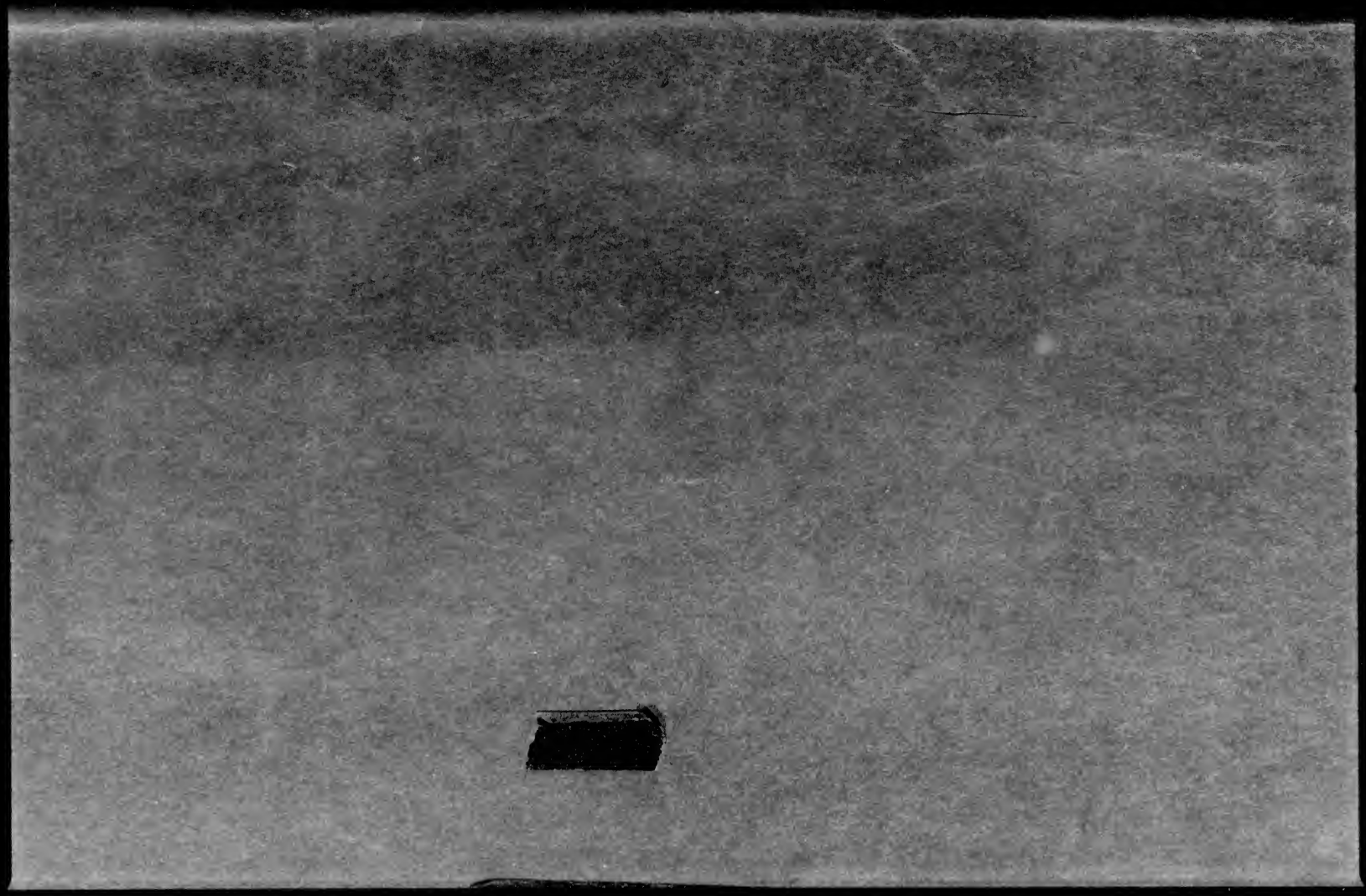

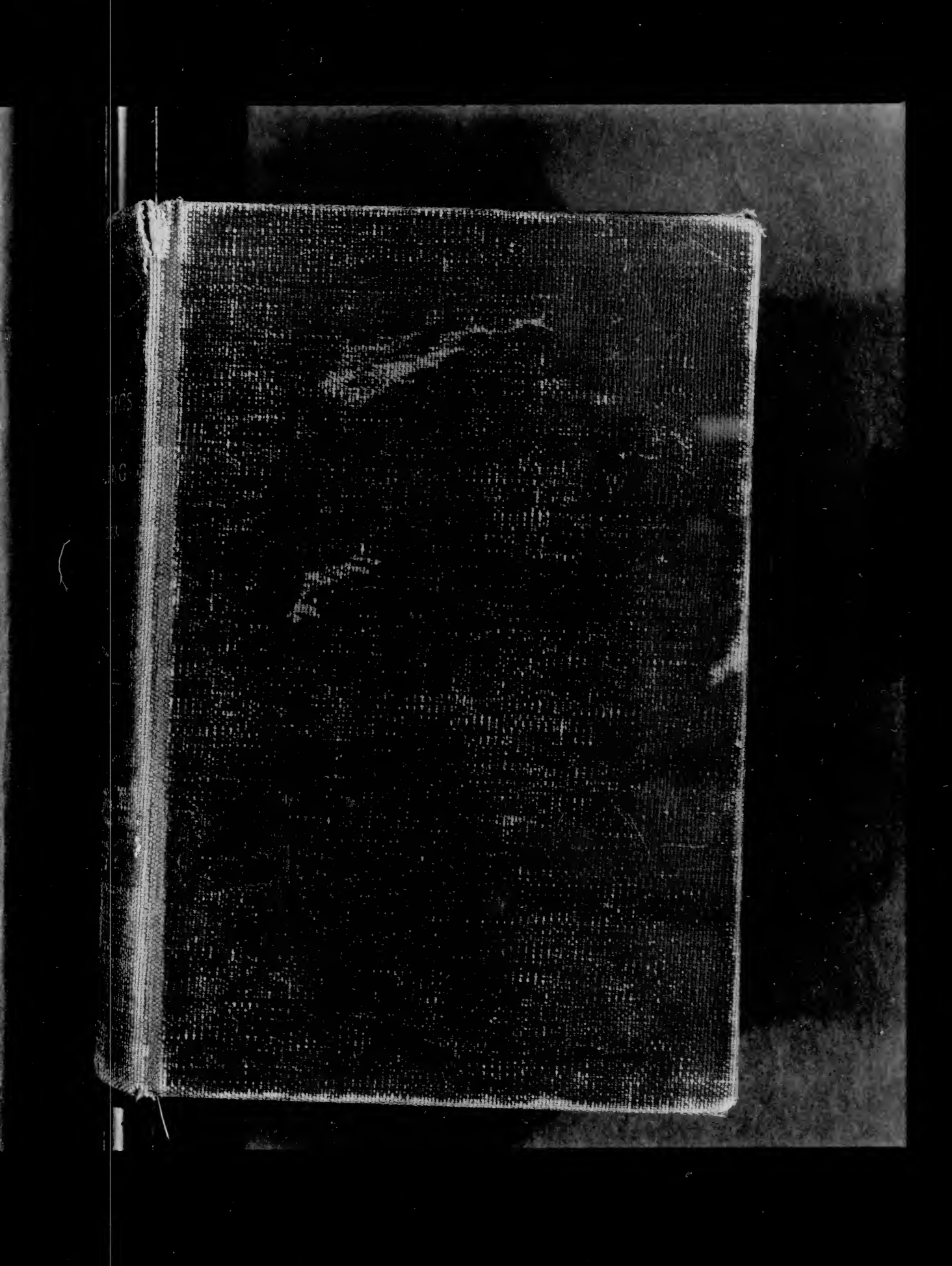

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# ECONOMICS OF RETAILING

By

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## VOLUME II

## PRINCIPLES OF RETAIL STORE OPERATION

Retail Methods Described and Appraised

THIRD EDITION
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# PREFACE

This book presents a systematic description and critical analysis of the fundamental operations of retailing. The approach is from the standpoint of practical business. The measurements applied are those of profitable results.

In the discussions of methods and practices, the aim is constantly preserved to discover the underlying reasons, the common factors of successful practice, and the principles of wide general application. In addition to describing how retail store work is carried on, effort has been made to offer foundations for constructive progress in retail methods.

The purpose of the book is to serve both large and small stores by dealing in principles rather than in details and by making use of concrete cases and illustrations to clarify principles rather than to serve as models.

While many illustrations are drawn from large institutions, the limitations and practical needs of the small store have been kept constantly in view. It should be kept in mind that both small and large stores have much to learn from each other. Obviously, the institution, be it large or small, which has accomplished the best results in any operation deserves the most careful study from others. Such has been the viewpoint in selecting the examples for use in this work.

This book takes advanced ground and critical attitudes upon many phases of current retail practices. Long-continued success in the past is not accepted as the sole criterion of utility either for the present or for the future. While it is not expected that all views presented will meet with absolute approval everywhere, it is hoped that they may provoke discussion and force clearer thinking.

This work is preëminently intended to appeal to the interests and serve the purposes of practical, experienced retailers. It is believed that if it can challenge the interest and add to the information of the alert and up-to-date merchant, it will also prove most helpful to younger executives and employees as well as to students.

PAUL H. NYSTROM.

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# ECONOMICS OF RETAILING

# CHAPTER I

## THE WORK OF THE RETAIL STORE

The function of the retailer is to purchase such goods as customers may want, to prepare them for sale, to display them, to advertise them in other practical ways, and to sell them at a profit. The simplest form of retailing is exemplified in peddling or house-to-house selling. With a minimum of equipment the old-time peddler, who carried his pack on his back, sought his customers from door to door, and by displaying his wares and using his powers of persuasion, disposed of his goods as profitably as he could. This form of retailing involved no problems of organization other than of the peddler's own time. Peddling still continues. There are still a few pack men and many house-to-house salesmen who buy and sell on their own account, but modern retailing is generally very much more complicated. It is a long stride from the old-fashioned peddler to the up-to-date department store.

Present-day retailing is carried on through a great variety of retail stores which may be classified in various ways. The following classifications are helpful:[1]

### Classifications of Retail Stores

I. According to Merchandise Carried
- a. Single-line stores
  - 1. Groceries
  - 2. Meats
  - 3. Hardware
  - 4. Drugs(?)

[1] For full descriptions of the methods, policies, and problems of the various classes of retailing institutions, the reader is referred to the author's work on "Economics of Retailing—Institutions and Trends."

5. Dry goods
6. Clothing
Etc., etc.

b. Specialty shops—really single-line stores carrying special merchandise catering to limited groups of customers such as—
1. Women's apparel
2. Millinery
3. Shoes
Etc., etc.

c. Multiple-line stores—retail single-line stores branching out and handling several lines of goods, such as—
1. Food markets carrying all types of foods including groceries, meats, dairy products, fish, fruits and vegetables, etc.
2. Apparel for men, women, and children.
3. Home furnishings including all classes of goods for furnishing homes.
4. Drug stores having cigar stands, luncheonettes, departments, etc.

d. Department stores carrying many lines of merchandise. This class of store usually carries dry goods, small wares, apparel for women and children and sometimes for men and boys, and home furnishings. A few department stores in this country also have food departments but most do not.

II. According to Services Rendered

a. Automatic retailing—slot machine distribution.
b. Self-service stores—customer makes own selections, pays cash, and carries goods home.
c. Cash and carry stores—includes sales service, aid in selection, etc.
d. Limited service stores—limited charge account privileges or limited deliveries.
e. Full service stores—includes delivery and charge account privileges.
f. Drive-in markets—stores adapted to serve passing motorists without need of getting out of car.
g. Rolling stores—house-to-house selling from motor trucks—a modern form of peddling.
h. Canvassing—house-to-house selling followed by later deliveries.
i. Telephone selling—order taking by telephone and followed by deliveries. Customers of this service need not leave homes to shop for goods.
j. Mail order houses.



III. According to Ownership and Control

a. Independently owned stores—
1. Individual owner
2. Partnership
3. Corporation

b. Branch stores allied to other business interests
1. Industrial stores, serving employees of an industrial or other organization.
2. Branch retail store serving as retail outlet or experimental ground for—
—manufacturer
—wholesaler
—mail order house

c. Chain or multiple-owned stores—two or more stores under same ownership.

d. Independently owned stores. Sometimes called "voluntary chains," united by—
1. Contracts to buy certain goods and perform certain services fixed by a central organization such as a wholesaler, manufacturer, or cooperative group of retailers, such as Independent Grocers Alliance and Frankford Grocery Company.
2. Licenses to use certain systems of merchandising such as Piggly Wiggly.

e. Consumers' cooperative stores.

IV. According to Location

a. Country crossroads stores serving rural trade.
b. Village stores serving both country and village trade.
c. Marketing center stores drawing trade from a wide radius.
d. Metropolitan shopping center stores.
e. Suburban marketing and shopping centers.
f. Neighborhood stores.
g. Roadside stands.

Although there are wide differences in equipment and methods of operation as well as in size, number of employees, and capital invested among these various types of retail institutions, there are nevertheless common purposes and prin-

ciples of operation covering all. The factors making for successful maintenance of a chain store, whether they pertain to the proper selection of merchandise, the skilful use of publicity and display, careful selection and training of employees, or adequate accounting and use of records, are very much the same for the independent store, the industrial store, the department store, and even the mail order house.

There is no greater fallacy than the commonly held view that each type of retail trade constitutes a separate and distinctly different entity, entirely unlike all others. As a matter of fact, the grocer has much to learn from the druggist. Both can learn a great deal from the department store. All three of these might get exceedingly valuable pointers from the successful chain store. The idea-tight compartments which some dealers erect for themselves and around their businesses would, if they were of marble or granite, fittingly serve as mausoleums. A suitable inscription might read, "Erected in memory of the John Blank Retail Business. Its Owner and Manager Would Learn Nothing from Other Businesses."

In the following pages there are presented the principles of retail operation common to all retail businesses. Examples and illustrations are in many cases drawn from specific varieties or classes of retail stores. The possibilities of individual variations in applying the principles are almost infinite.

**Requirements of Successful Retailing.**—To carry on his work the owner of a modern retail business whether large or small requires the following:

1. A location convenient for customers.
2. A suitable place in which the business of selling may be transacted.
3. Proper equipment for storage and display of merchandise.
4. An organization of employees carefully selected, trained, and supervised.



5. Specialized buying based on careful analysis of sales possibilities and planned selling.
6. Specialized publicity including advertising and display suitable to the merchandise, the store, and its community.
7. Sales service selling customers what they need and want.
8. Facilities for rendering such additional services to customers as may be necessary or desirable, including delivery, adjustment of complaints, exchange privileges, credit, mail orders, telephone orders, and so on.
9. Proper provisions for financing purchases and for accounting and control.

**Retail Store Organization.**—To carry on the work of retailing properly, a high degree of specialization of effort as well as of equipment is necessary. There must be both order and system in the operations of the store. This is secured through organization. Organization means, "An arrangement of interdependent parts each having a special function, act, office, or relation with respect to the whole." Wherever there are two or more engaged in work in the same concern, there is need for human organization. An organization of functions and duties may even be helpful where the work is done solely by one person.

The first step toward good organization is a careful departmentization of functions. In most concerns, particularly factories, such departmentization is based on processes, on materials, or equipment. In the retail business, mechanical processes and equipment are insignificant. The retail store, for the most part, deals in finished goods, so the departmentizations in retail stores are largely based on kinds of work carried on, and on kinds of goods handled. Departmentization follows the kinds of goods handled. The main lines of division follow the kinds of work carried on.

The retail store offers a wide range in human activities

with merchandise resources on the one hand and a still wider human contact with prospective customers on the other. Satisfactory contacts with people are the foundations upon which effective retailing is built. Successful retailing, therefore, depends to an even greater extent on a smooth-working human organization than do most other kinds of business.

**Requisites of Good Store Organization.**—Building an organization such as is required in retailing and in which the human element is paramount involves:

1. Fitting the work to the people employed and fitting the people to the work to be done. A study of the work to be done, "job analysis," shows not only what is to be done and how, but also what the human requirements are for its performance. Similarly, a study of available personnel in training, knowledge, experience, ability, and character is needed to show what adaptations may be needed in the personnel to get the work done in the best possible manner.

2. Definite assignments of persons to specific jobs, with precise definition of what each person is to do and, so far as possible, how much is to be done. This is commonly termed "job specification."

3. Training and directing the energies of the employees on the job, as well as new employees, by instructing each on what to do and how to do it.

4. Adequate supervision to insure that the work is carried on according to instruction.

5. Provisions for securing the best cooperation and effort from each person employed through fair systems of remuneration, suitable working conditions, and other incentives.

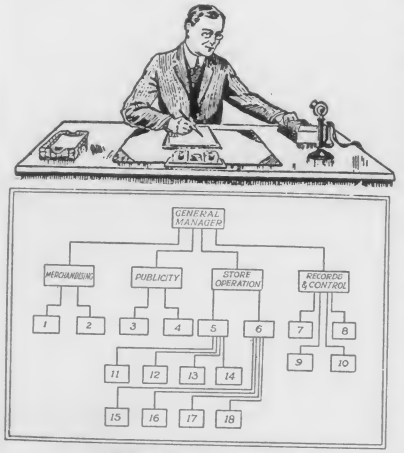
6. Coordination of departmental efforts so as to secure team work. This may be secured by clear understanding of store objectives and of principles and methods of operation, and involves the removal of causes of misunderstanding and the settling of conflicts. The aim of good organization should



be to insure a wide-open welcome to all possible views and solid conformity and unified action on the soundest views.

7. Provision for continuity of operation in all parts of the organization in case of changes in personnel. Changes are certain to occur in every concern. Unless provisions for such changes are made in advance they may result in serious losses

IMPROPER ORGANIZATION
Figure 1a




PROPER ORGANIZATION
Figure 1b

to the business. An organization properly put together should make it possible to carry on the business with a minimum waste of time or energy in case of any change.

8. Finally, one of the major purposes of organization is to secure a high degree of permanence, and at the same time provide for continued growth for the concern. The

so-called "one man type of organization" has its decided points of advantage in its daily operations. Its manager can decide as quickly as he may desire and act at once. Difficulties can be met without delay, opportunities can be seized immediately.

The "one man type of organization" may be very flexible but its source of strength is also its source of weakness. Unless the knowledge and judgment of the manager of such a business is very excellent, the quick decisions may as often be wrong as right. To be sure, when such an organization finds that it is in the wrong, its manager can quickly change, but any listing of the advantages of the "one man type of organization" should not be construed as a wholesale approval of this type. At no point is it so likely to fail as at the time when its manager drops out. In many cases the life of such a concern is coexistent with its manager. Under proper organization, even in smaller concerns, the permanence of the business may be assured, and changes in personnel of any rank should cause little or no break in operations.

Furthermore, the growth of most concerns is definitely bounded by the vision and ability of their managements. Organization in itself does not provide either vision or ability, but through proper organization a better mold for such vision and ability is provided which, if utilized, may lead to the development of the concern to much wider fields of usefulness.

**The Advantages of Organization.**—No matter what the size of the retail store, the advantages of organization for it are so clear as to need but simple enumeration. The larger the store, however, as we shall see, the greater the need for detailed organization.

1. Proper organization provides for division of labor and specialization in effort for every individual employed. This, in turn, should produce an increase in efficiency. The salesperson specializes in selling and spends all or most of the time in this activity. The wrapper becomes expert in making up packages, the cashier in making change, the telephone girl in answering calls, the bookkeeper in making records, and so on.



2. The assignment of definite responsibilities to each person insures better attention to each class of work and the opportunity for closer supervision and better control.

3. Detailed organization makes it easier to meet changes in personnel. It is usually not so difficult to find and to hire persons who know how to sell, how to wrap, how to make change, how to run the telephone, how to keep books, how to buy or how to prepare window displays as it is to find individuals who know how to do all of these kinds of work. It is usually easier to find persons seeking employment who know the work of one department or of one kind than to find those who thoroughly know the methods of operation of several departments. Organization relieves the concern to a great extent of dependence upon rare personal ability of any kind. It is usually not difficult to find new employees for any department in a well-organized retail store. Without such organization and division of labor, there might be a great deal of difficulty in finding new employees with all-round training in retail store work.

4. In consequence of the specialization and the other advantages mentioned, proper organization should result in lower costs of operation, smoother operation, less dependence upon particular employees from the general manager down, and a better basis for business expansion.

**Disadvantages of Organization.**—There are, however, some disadvantages of organization, particularly if the work of organization is carried into too great detail, or if not properly planned.

1. Organization, by itself, accomplishes nothing. It does not take the place of information, of ability to think, of imagination, or of decision. Energy, ambition, and resourcefulness

are qualities of individuals. Organization without these individual, personal qualities is helpless.

2. It is not easy to adapt finely developed organization plans to small businesses having but few employees. Even though an organization plan be applied to a small concern, it would still be necessary for the employees to do many kinds of work.

3. A highly developed organization works successfully only when properly fitted to the needs of the concern. Poor organization leaves some employees with too much to do, others with too little. Employees may not work well together even when well-organized. Organization does not take the place of cooperation or of executive direction.

4. Highly developed organization usually calls for more accounting and record keeping than most small retail concerns employ. Whatever may be the ultimate increase in efficiency, the first steps resulting from finer organization usually result in higher costs. In some cases organization even results in the necessity for more employees.

5. It is always difficult and sometimes disastrous to make changes in organization in mature or old retail concerns. An organization plan may be theoretically correct in every detail, but may still fall down in application because of the difficulties of fitting the older executives and employees to more specialized activities such as required in a highly developed organization plan.

6. Organization, as we have seen, may also tend to slow up the activity of a concern. Theoretically, the "one man type of organization" is the swiftest. Division of labor usually speeds up routine activity but gets clogged easily whenever there is a change in routine.

**Organization of Retail Functions.**—The functions of a retail store, whether big or small, are approximately the same. The essential difference in the performance of these functions



in large or small stores is that in a large store there is usually a fine division of labor, and each function is performed by separate people, whereas in a small store many of the functions are combined and performed as the duties of single individuals. The detailed functions of a retail store of any size are as follows:

1. The Maintenance and Care of the Building and Equipment. This includes keeping the building clean, making needed repairs and alterations, and providing heat and light.

2. Receiving Goods. The goods received from wholesalers and manufacturers must be properly checked, recorded, and retail prices marked, before going into stock ready for sale. The person or the department in charge of receiving goods is usually responsible for all handling of goods, including storage and stockrooms, from the time they are delivered to the store up to the time when they are placed on the shelves ready for sale to customers. This function sometimes includes the handling of traffic problems, directing wholesalers and manufacturers how to ship their goods to the store, how to wrap them, by what form of transportation, what route, and making claims on transportation companies or shippers for goods that arrive in damaged condition.

3. Supplies. Every retail store uses large quantities of supplies, such as wrapping paper, twine, price tags, boxes, cartons, bags, pins, rubber bands, labels, pencils, printed forms, and other materials. The purchase and care of such supplies is an important function deserving specialization of attention.

4. Protection. The presence in a store of stocks of valuable merchandise constitutes a continuous temptation to dishonesty and theft, against which provision must be made to insure the store against loss and the public and the store's employees against wrongful acts.

5. Personnel. As already pointed out, most of the problems of a retail store grow out of its personnel, the degree of knowledge, ability, judgment, and interrelations of the store staff. Consequently, the functions of employment of proper people, their training and supervision, their remuneration, and all activities carried on in their welfare, are matters of greatest importance.

6. Floor Supervision. Large stores with several departments and with many employees require floor supervision to insure discipline among employees, prompt attention to customers' wants, and direction of customers to proper departments.

7. Buying. The provision of proper stocks of goods is a much more difficult and complicated function than it seems to be from the outside. It involves intimate knowledge of consumer demand and of the trends and changes in consumer demand such as are produced by changes in fashion. It requires systematic control of stocks of goods to insure that all items receive opportunity for sale, and to prevent the mistake of buying what people do not want at a profit to the store.

8. Publicity. Every modern store, large or small, in the hands of capable management, seeks publicity in such directions as attractive window displays and interior store displays. Display is the most universally used and is indeed the most valuable form of retail publicity. Wherever practicable, other opportunities for publicity such as advertising, direct mail, and so on, may also be used.

9. Selling. Obviously, this activity is the climax of all of the store's preparations and work. The sole object of the store, from the social standpoint, is to provide its public with such goods and services as may be desired; but from the individual, private standpoint of its owner, its object is to earn a



profit from the sale of goods. If all other functions are properly performed the success of selling is largely assured. For example, there is an old maxim, "Goods well-bought are half sold." Similarly, the right sort of a store in the right location will go far to aid sales, but the importance of the function of selling cannot be overemphasized even when all other work in the store has been most thoroughly completed. Even with all other functions of the store well performed, it may still break on poor sales service.

10. Service. In order that sales may be made in a manner most satisfactory to the store's clientele, the performance of certain services may be necessary. Among these are delivery, credit, care of telephone and mail orders, adjustments of complaints, free exchanges on any goods found unsatisfactory, and so on.

11. Finance. Money matters require attention in every type of store. Disbursements must be made for merchandise, for supplies, and for operating expenses. Cash receipts and collections on accounts must be carefully checked and safeguarded. Bank balances must be watched to insure that adequate funds are available to meet oncoming obligations.

12. Accounting and Control. Very few kinds of retail establishments in these days can survive very long without accounting. Both accounts receivable and accounts payable need detailed records. In addition to these, proper accounting is used to check and control practically all of the operations of the business. Such accounting is frequently carried into great detail by departments and subdivisions. Finally, accounting is necessary for the business as a whole, first, to determine periodically what its exact financial status may be and, second, to determine the financial results of operations over any preceding period of time.

13. Correspondence and Files. Usually all of the business correspondence of a retail store, conducted in the name of the store, is handled in the same division as the accounting and control functions. Most of the situations requiring correspondence arise in the accounting division and usually the correspondence, finance, and accounting are combined in one department and designated as "the office."

14. Other Functions. While the foregoing constitute the principle functions of practically all stores, there are many variations and also a number of other lines of work performed in some stores. Among the newer subdivisions of functions and of lines of work occasionally found in retail stores, are specialized control of expenses, specialized attention to the store's public relations, and a variety of services to customers and store visitors, such as the provision of waiting rooms and rest rooms, children's play rooms, restaurants, and tea rooms, rooms for bridge parties, auditoriums for lectures, music, style shows, and moving pictures, parcel wrapping and check rooms, special bureaus to supply theatre, railway, and bus tickets, post-office substations, and even salespeople who are competent linguists to take care of customers' wants expressed in any language. Special types of retail institutions frequently develop special types of services and new functions. These will receive attention in other chapters.

**Organization in a Large Store.**—An outline of the functions and the organization of modern retail stores will now be presented. Various types of retail institutions perform various functions and services with varying degrees of efficiency. Each of the main types of retail institutions has developed outstanding strength in certain lines. For example, one may find the most careful buying and the most skilful salesmanship in the well-managed, small, specialty shop. The mail order house exemplifies the most effective form of sales advertising. The chain store offers the best illustrations of accounting control,



of standardization of stock, of equipment, and of service. Department stores, with their large numbers of employees under one roof, have of necessity been forced to organize these employees most carefully to avoid duplication of effort and waste of energy. The main contributions of department stores to the science of retailing have been detailed analyses of the work to be done, and careful organization of personnel to secure adequate performance. Consequently, retail organization is best exemplified in department stores and the most highly developed forms of retail organization are to be found in the largest department stores.

One of the most effective ways of representing the functions and responsibilities in a retail store organization is by means of organization charts. Such a chart shows both relationships and responsibilities. Every store of any size from a few employees up to the largest should have its own chart of functions and organization and this chart should be explained in detail, as a part of his education, to every employee. (See Figure 2.)

Department stores are in most cases now owned by corporations. Consequently, the organization of a retail store begins with corporation organization. The owners are the stockholders who are represented in the management of the affairs of the business by a board of directors who, in turn, elect the executive officers, usually a president, vice president, secretary, and treasurer. There is frequently a smaller body called the executive committee which acts for and is responsible to the board of directors. The executive committee usually keeps in much closer contact with the business than is ordinarily possible for either the stockholders or board of directors itself.

Actual operation of the store, however, begins with an executive who is usually called the general manager. The general manager of a retail store may be and often is the president of the corporation owning the store. However, there are numer-

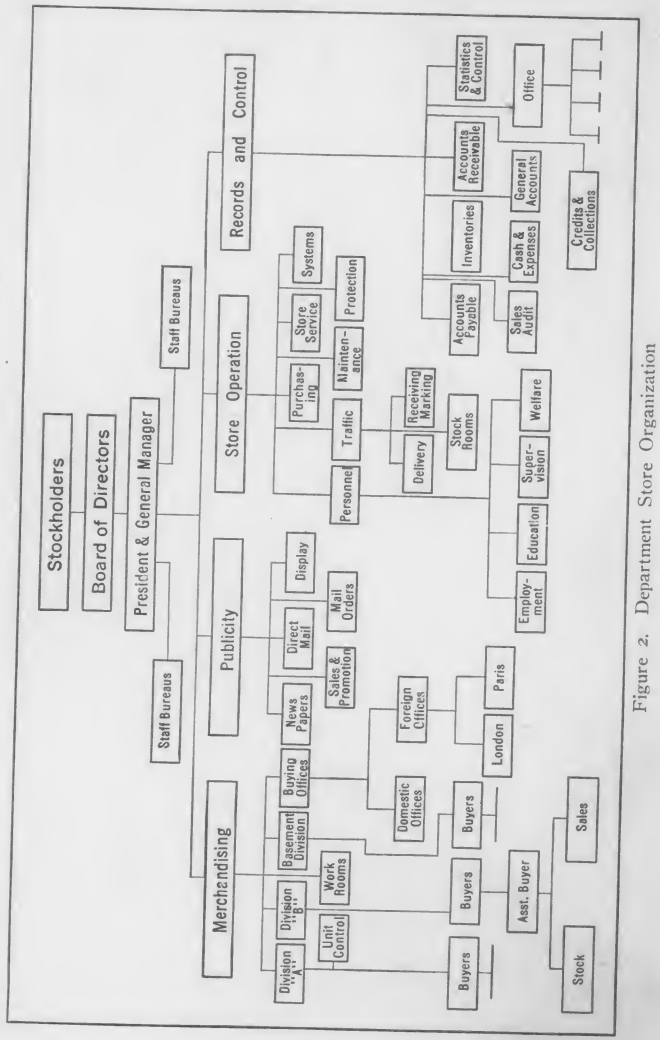



Figure 2. Department Store Organization



ous instances in which the general manager is not the president, and, in fact, he may be neither an officer nor stockholder of the corporation whatever, but may merely serve the corporation and its officers in the capacity of an employee.

Under the general manager the functions of the retail store are usually gathered together in four divisions, each headed by an executive who may also be a corporation executive.[2] These divisions are as follows:

1. MERCHANDISING. This division includes all activities having to do with buying, such as the planning of sales, planning of stocks, stock control, consumer and fashion research, market research, and actual buying. The executive head of this division is commonly known as the merchandise manager, who may or may not also be a vice president of the corporation. In the larger stores the merchandise manager may also be assisted by division merchandise managers who are in reality assistant merchandise managers, but specializing in effort and attention on specific groups of related commodities, such as women's, misses', children's, and infants' apparel, on men's and boys' clothing and furnishings, on shoes, on furniture and home furnishings, on hosiery, underwear, and other small wares, and so on. The buying is done on a departmental basis by buyers or department heads. Under the buyers come assistant buyers, heads of stock, and, finally, the salespeople.

2. SUPERINTENDENCE. This division, whose head is usually known either as general superintendent or store manager, includes a great number of functions in a retail store such as the maintenance of the building and equipment, receiving all incoming merchandise, purchase and care of supplies, protection, public information and floor supervision, delivery and telephone service. In most department stores all personnel activities including interviewing, hiring, training, promotions,

[2] Throughout this work the term, division, is used to indicate the first general separation of functions in a retail store. Divisions are in turn divided into departments. Departments are divided into sections and sections into subsections.

dismissals, transfers, salaries and other incentives, and all welfare work are included under the direction of this division. In a few stores, as we shall see, a separate and coordinate division handles all personnel activities.

Executive responsibility for the sales staff is, in most of the larger stores, shared between the merchandising and superintendence divisions. The superintendence division hires, trains, and supervises sales routine and service, while the merchandising division instructs the sales staff on the merchandise itself, on how to sell and supervise the sales work with the object of securing the utmost sales production.

3. Publicity. Under this division headed by an officer variously known as a publicity manager, advertising manager, or sales promotion manager, are included the functions of advertising, interior and window displays and all other forms of store publicity. In stores without regularly established mail order departments, such mail orders as come in are usually handled by the publicity division.

4. Finance, Accounting, and Control. The secretary or treasurer of the corporation, or these two officers combined in one person, is very often the head of this division. In other cases an employee, commonly called the controller, is in charge. The work of this division includes the performance of all functions pertaining to finance, accounting, and control. This division controls the receipts and disbursements of all money, and maintains the financial records. It keeps the books in which are recorded the accounts receivable and accounts payable. Credits, if they are granted, and collections, are functions of this division. It audits all records of a financial nature whatever they may be, ranging from sales checks and charge accounts to expenses for supplies and advertising. It provides, in the most usable form, such statistics on operations as may be needed by the executives of the operating departments. Both



appropriation and control, at least in their statistical phase, originate in this division; and the correspondence and letter files of the company are maintained as a part of its work.

**Variations in Organizations.**—Probably most department stores are organized, at least roughly, into the four divisions corresponding to those indicated above. This is the type of organization recommended by Paul M. Mazur in his report to the National Retail Dry Goods Association, later published under the title, "Principles of Organization Applied to Modern Retailing." There are notable exceptions, however, some of which are new and experimental and others of long standing.

**Personnel Division.**—Personnel work, as already suggested, is sometimes separated from store superintendence and established as a separate division with a manager of staff or manager of personnel in charge, directly responsible to the general manager, and coordinate in authority with the other four executive divisions enumerated above. It differs from the standard organization outlined in that all functions and activities having to do with personnel are separated from the division of superintendence, and instead of being treated as a department within that division, is considered as a separate division. The importance of good personnel management to a retail store is so great that this constitutes the main reason for this subdivision. It is altogether likely that an increasing number of stores may adopt this form of organization.

**Sales Manager.**—In some of the larger retail stores of the country there has been created the position of sales manager, directly responsible to the general manager, whose duty it is to supervise the preparation for and execution of all plans for special selling events and special promotions of the store. In some stores this work is made a departmental activity of the publicity division. In still others no separate staff exists to handle this work. The responsibility of the sales manager,

where one exists, includes careful advanced planning, the securing of cooperation of all departments that are participating, checking the merchandise and publicity used, devising means of securing better public response, and so on. An increasing number of stores are setting up special sales divisions with sales managers in charge.

**Public Relations Manager.**—In a few stores the position of public relations manager has been created to handle all problems affecting the goodwill of the store. This position is sometimes made directly responsible to the general manager, and in other cases is established as a subdivision of the publicity division.

**Expense Manager.**—Control of expense, which is highly essential in a retail organization and which is ordinarily carried on as a departmental function under the superintendent or store manager, or under the controller, is in a few cases definitely raised to the importance of a separate division reporting directly to the general manager. Inasmuch as the functions of the expense division, as carried out under a manager of expense, are of the nature of analysis and check-up rather than executive direction, this division, when created, serves more as a staff aid to the general manager than as an operating division.

**Miscellaneous Staff Bureaus.**—The general manager of the retail business of considerable size is sometimes assisted by staff aids who have no executive power or responsibility but who function by gathering information, making comparisons or analyses, presenting reports and opinions, and otherwise aiding the general manager. Among such staff aids are legal departments, architects—in case a building program is under contemplation—-research and planning departments, comparative shopping bureaus, consumer demand and fashion research departments, and testing laboratories. In some cases these



staff bureaus are set up under appropriate store divisions, but usually they start out, at least, directly responsible to the general manager.

A few retail stores employ a "store hostess" whose duties are largely of the kind intended to build goodwill for the store among its clientele by assisting customers who are having difficulty of any kind, arranging for special services such as lectures to women's clubs, schools, and other groups in the community on matters relating to consumer interests.

The research and planning bureaus which may be found in some of the largest department stores and which are usually directly attached to the general manager's office are generally required to maintain running or continuous records showing trends of store working efficiency, to gather facts, analyze and interpret conditions regarding troublesome store problems, and to assist the general manager on any matter in which research may be of help. In some stores the research and planning department is made responsible for all changes in system. There are other stores in which the study of new systems, consideration of changes of old systems, together with the supervision of the operation of systems, is made a function of a department commonly called the systems' department, responsible to the store operation division.

Research and planning departments are now to be found in a considerable number of well-known American department stores. The functions of a research and planning department, in addition to the points already mentioned above, are generally to make analytical studies and surveys of various phases of the business, with the view of aiding the management in detecting and interpreting trends, correcting evils, eliminating waste, or planning for the future. These duties are usually not regularly performed in the operating departments of the concern in such careful detail as by the research and planning department; consequently, this sort of department is usually

established as a staff aid to the general manager, rather than connected directly with any of the regular retail divisions.

**Separation of Buying and Selling Activities.**—Another important variation in retail functions from that described above is in separating the buying and selling activities, by grouping all activities having to do with buying and providing of merchandise under a division termed "incoming merchandise," and having all sales activities managed under another division, this division sometimes including all activities intended to induce sales such as publicity, display, the management of sales events, and so on.

Such division between buying and selling has been carried out in chain stores and mail order houses. A few department stores have attempted to separate buying and selling managements but without many outstanding successes. The objection to such division of functions in department stores is that those who are responsible for the buying of merchandise for the store are considered best able, and are generally most successful, in selling the merchandise, or in supervising its sale.

That this view is subject to exceptions may be seen in the case of chain store organizations whose buyers devote their entire time to buying goods, and whose selling is entirely a responsibility of store and department managers, who have little or nothing to do with buying. The coming of the chains into the department store field is almost certain to bring on intensive tests of the possibility of separating buying and selling functions in department store units, much as they have been separated in chain stores. If buying and selling can be successfully separated in department stores, then chain department stores are going to grow very fast.

**Branch Store Organization.**—Such retail stores as have branches or agencies require special forms of supervision and direction in addition to the divisions mentioned above to take care of these branches or agencies. Branch and agency organizations, as we saw in the chapter on chain stores in Volume I, partake in nature of chain store organization and need not be discussed further here.



**Manufacturing Departments.**—Other departments not specifically mentioned above which must be cared for in retail store organizations include factory and alteration departments such as for apparel, upholstery, floor coverings, furniture, furs, hosiery, gloves, jewelry, shoes, and so on. There is a distinct trend in American as well as in European department stores to merge such factory departments, whether engaged solely in alteration work or in the manufacture of new goods, into one general department with a factory manager in charge responsible to the general merchandise manager or the general manager of the store. The alternative is to have each alteration department responsible to the buyer or department manager of the department affected in the store. Thus, the buyer of men's clothing is made responsible for the men's wear alteration department and the fur buyer is made responsible for the fur alteration department, and so on.

Merging all factory departments into one makes it possible for the store to hire a competent factory manager who may introduce economical factory methods. When merged, it is sometimes possible to secure a further use of the time of employees, better management of power, better control of supplies, and, most important of all, a direct responsible control of expense for factory operations.

When a buyer or department manager is made responsible for an alteration department, it may be assumed that he will make his purchases as carefully as possible so as to avoid as much of the alteration expense as he can. On the other hand, after an alteration department has been established it sometimes occurs that the buyer may lean too heavily upon its help to make goods bought satisfactory to customers. When the alteration department is placed under the central direction of

a factory manager and each department is charged for work done on a piece work basis, the emphasis is then definitely placed on the department to cut its alteration expense. A buyer or department manager usually has no special training or ability to manage a production or alteration department, and an experienced factory manager, taking all of the alteration departments under his direction, is usually able to secure better results and at lower costs.

**Resident Buying Offices.**—The growing tendency of retail stores of all kinds to employ or establish the services of resident buying offices in market centers, has raised the question as to the appropriate division under which the management of such resident buying connections should be maintained. This function quite logically belongs under the merchandising division. In some cases the need of the store for inaugurating new services offered by resident offices, such as group buying or importing, may make it advisable for the general manager to assume temporary supervision of resident office activity. After the period of development, these functions may then be turned over to their proper place in the merchandising division.

**Instalment Credit Departments.**—The rapid development during the past ten years of the retail business on an instalment payment basis, sometimes called "deferred payments" or "easy payment plans," has made necessary the creation of special departments in which this business may be handled. The sales under these plans are secured either through the regular sales force or through special solicitors, but the record keeping and collecting, while handled as a separate department, are usually included in the records and control division.

**Operating Board.**—To secure team work among the various division heads and other executives of large stores, provisions are usually made for regular, periodical meetings of such officers under the direction of the general manager for the



discussions of matters of common interest, such as plans for future events, changes in policies, and so on. The group made up of the leading division heads of the store is variously termed an operating board, governing board, or operating council. Such a body is highly essential in modern retail organization to secure proper cooperation.

Figure 3. Typical Small Store Organization
Prepared by and published with the consent of the National Cash Register Co.

**Organization in a Small Store.**—As outlined earlier in the chapter, the functions of retail stores, be they large or small, are essentially the same. The main difference between a large store with many employees and a small store with few employees is in the division of labor. In a store with but a few employees, obviously, many functions and duties have to be performed by each individual. The following description of the organization of a small retail store managed by its owner,

or by an employed manager, and assisted by four employees will make this point clear. (See Figure 3.)

**Duties of the Manager.**—The owner-merchant or manager would in all likelihood assume responsibility for all of the main functions of merchandising, publicity, finance, accounts, and control. In the performance of these duties, however, he might delegate many details to his assistants. Thus every person in the store would act as a salesperson, but also at times assist in almost every function.

The owner-merchant or manager of the store would do the buying and also supervise the merchandise stocks and the selling. He would direct some one of his assistants to plan and set up the window and interior merchandise displays, and plan any advertising that a store of this size might do. All complaints and matters for adjustment would naturally come to him for attention. All business planning for the future would be his responsibility. Finally the active, successful merchant in a business of this size would also spend a considerable portion of his time in actual contact with his customers, and in actual selling.

**Duties of the Head Salesperson.**—The manager's first assistant, or head salesperson, might give a major portion of his time to selling goods but should assist his employer in buying, in planning advertising, and might well be the individual in the store responsible for the window and interior displays. This head salesperson would be the one directly in charge of the store in the absence of its owner, and in most cases would bear some of the responsibility for the supervision and training of the other employees.

**Duties of the Second Salesperson.**—The second salesperson would likewise spend most of his time in selling goods but might be made responsible for the care of stock and stock arrangement. In that connection he would watch for slow-



moving items and report these to the manager for such action as might be profitably taken. He would also report on stock shortages, assume the responsibility for receiving merchandise, for checking invoices, and for placing goods, when properly price-marked, in stock.

**Duties of the Third Salesperson.**—The third salesperson would give the major portion of his time to the sale of goods, but might be definitely made responsible for keeping the store, stock, and shelves clean and in good order.

**Duties of the Delivery Man.**—If the store service required delivery, then the fourth assistant would probably be the delivery man. In a store such as the one for which this organization is suggested, the actual delivery work would take but a part of one person's time. The delivery man might therefore be charged with the added responsibilities of reporting all complaints, of trying to secure new customers while making his deliveries, of collecting slow accounts on his delivery route, and of assisting in selling during rush hours and while not actually out on deliveries.

**Organization in Mail Order Houses and Chain Stores.**—The accompanying organization charts present typical lines of responsibility as worked out in mail order houses and chain store concerns. (See Figures 4 and 5.) Each differs from department store organization only in degree and to the extent that certain activities are more important than in department stores. The merchandising organizations are quite similar in all three types of stores, as are the functions and lines of responsibility in the finance, accounts, and control divisions. The mail order house has a sales and advertising division that is much more specialized and more highly developed than any of the other types of institutions. Catalog and other advertising is, of course, the source of all mail order business, and the

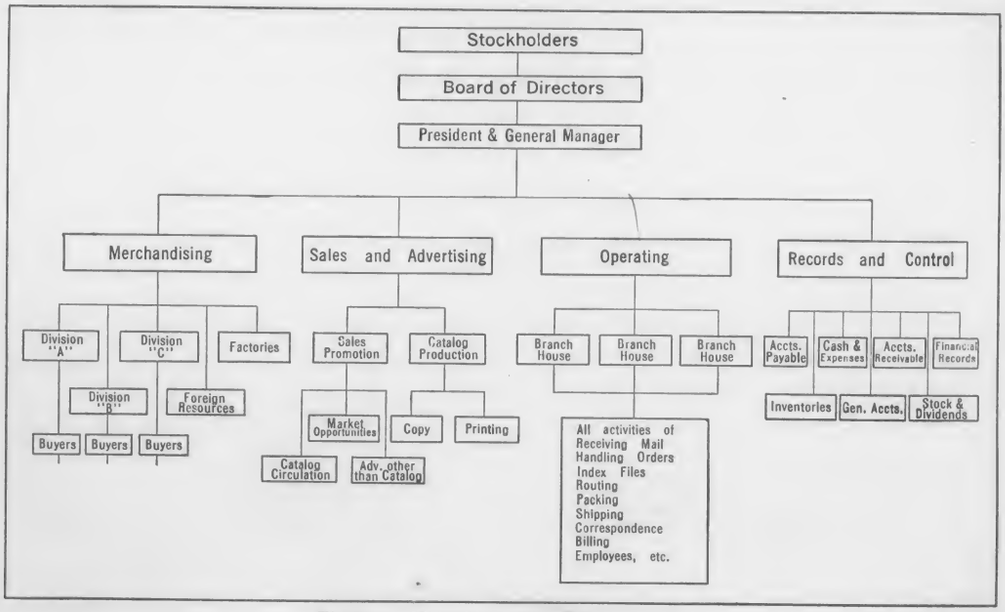



Figure 4. Mail Order House Organization



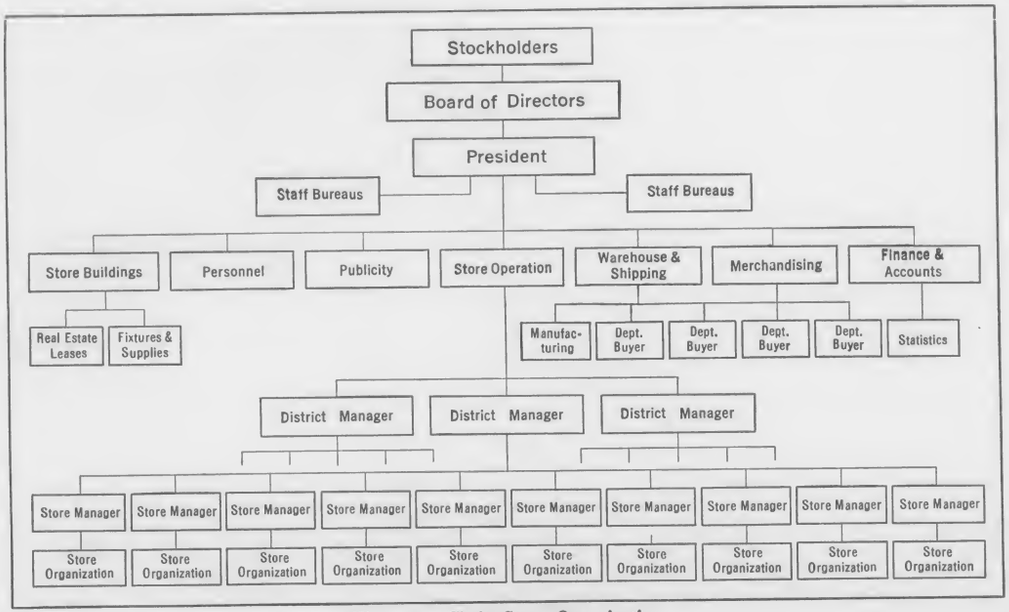



Figure 5. Chain Store Organization

sales and advertising division is therefore the heart of the mail order business.

Chain stores must have a division to select locations, to handle real estate, leases, insurance, licenses, taxes, fixtures, and other equipment. It must also have a type of supervising organization covering its stores, such as is unnecessary in the other kinds of retail institutions. Other functions are similar. The store organization in each unit of a chain is somewhat the same as in an independent store, excepting such details as are carried for the chain units in the overhead, central office organization. A careful comparison of the organization charts presented in this chapter will repay the reader by a fuller understanding of the essential differences and likenesses of the various types of retail stores.

**Organization as a Problem of Management.**—The objects of organization specifically outlined in this chapter resolve themselves into the one general purpose of securing better management of the business. Dividing the work of the store along functional lines and according to the kinds of goods handled are essential steps to better management. How far such subdivision shall be carried, however, is always a problem. The limits of subdivision from the standpoint of statistical control must be the points at which the costs of compiling the information begin to outweigh the advantages gained therefrom. Improvement in statistical technique has often proved a means of extending the profitable use of control figures to finer and finer subdivisions.

How far the principle of division of labor may be carried in a retail store is also always a problem of management. There are wide differences in opinion among successful retailers, even among those operating the same types of stores under very similar conditions, upon this point. The trend for many years, while very irregular, has undoubtedly been toward increased specialization and finer divisions of labor. Salespeople, for



example, who formerly not only sold in various parts of their stores but also assisted in stock checking, price marking, and bundle wrapping, in an increasing number of cases in medium and smaller-sized stores as well as large institutions, now do nothing but sell goods in but one department.

In connection with the increased specialization and finer divisions of labor there has also arisen the problem of supervision. How closely should work be supervised? How many employees should each supervisor control? This problem begins at the top of the organization and works down through the entire system. How many division heads should there be reporting directly to the general manager? How many department heads can each division manager competently supervise? Similar questions arise for every branch of store work.

Supervision, where there are large numbers of employees working under one head, very quickly becomes perfunctory and routine instead of constructive. It is practically impossible for any department head to render close supervision to a score or more of employees, unless the work that they do is very highly standardized and their output checked by some form of inspection.

In response to a question from the writer on how many employees each foreman could handle in his plant, John H. Patterson, the president of the National Cash Register Co., stated that from his experience he had concluded that in both factory work and in selling a supervisor was needed for every five workmen. Mr. Patterson's dictum, that there should be a supervisor for every five workpeople, is at least interesting if not final. In his conclusion, so characteristic of the man and so definitely stated, there is a valuable, practical principle involved. No executive of any rank should have more employees responsible to him than can be properly supervised. Lack of sufficient information and study upon this point makes it impossible to offer anything more than tentative suggestions upon this problem.

In an ideal retail store organization it is probable that the general manager should not have more than five or six division executives reporting directly to him, and each of these should not have more than a similar number of department heads reporting to them. Department heads in turn should have their work organized down to the rank and file so that every employee may be subject to competent, responsible supervision.

It is impossible for a general manager to give close attention to the work carried on by a dozen or more division executives who are supposed to report directly to him. There are not enough hours in the day nor is there enough human energy to carry on this type of organization successfully. That there are many general managers who have a dozen and sometimes many more division and department executives responsible to them, and that there are general managers who, in addition to their responsibilities to the retail business, may have many other outside interests and duties as well, proves nothing to the contrary. There are many general managers who spend much of their time outside of their businesses and whose functions are successfully carried on by some assistant or subordinate. The division heads may be entirely competent to carry on their work for indefinite periods of time without the supervision of a general manager. In such cases, the functions of general management are shifted to the division managers themselves. It is probable that the general manager with four or five division heads is in better position to keep in close touch with his business than the one who attempts to carry on business dealing with a dozen or more executives.

Similarly, down through the organization, close, responsible supervision is impossible at any point where too large a number of employees work under the direction of one department head or supervisor. The remedy is clearly closer organization. The department head with too many subdepartments needs to have his department divided or needs to be given an assistant with supervisory powers.

# CHAPTER II

## RETAIL ACCOUNTING AND CONTROL

Retail accounting is as old as retailing itself. Some of the earliest known written records, the papyri of Egypt and clay tablets of Babylonia, show business accounts of dealers and others. Well-developed and accurate systems of accounting prevailed in all of the ancient commercial civilizations. Even primitive people had their methods of keeping accounts, one of which, widely used, was to record sales on credit by means of notches on sticks. Payments were recorded by shaving off the appropriate number of notches. Duplicate records assuring accuracy and freedom from tampering or dishonesty were sometimes secured by splitting the notched stick, one part of which was kept by the creditor and the other by the debtor. When the split pieces were matched together any alteration of notches would be discovered at once.

There has been much progress since the use of the notched stick, the clay tablet, or the papyrus in keeping retail accounts. The development of double-entry bookkeeping by Italian business men during the late Middle Ages was a great step forward. Double-entry bookkeeping, which for a long time was known as the Italian system, spread to all commercial countries in the centuries following.

**The Double-Entry Bookkeeping System.**—The use of double-entry bookkeeping instead of single-entry, which formerly prevailed widely among the smaller stores of the country, is now general. Its advantages over single-entry both for purposes of securing greater accuracy and more information as to the condition of the business, are now no longer matters of debate and discussion. There have, however, been important

changes in double-entry bookkeeping as applied to retail stores. These changes will be noted.

The essential books of the double-entry bookkeeping system which were formerly used in recording sales and other commercial transactions consisted of:

1. A *day book* in which statements of every financial occurrence were jotted down in diary form without reference to whether they were debits or credits. They were simply descriptions of the transactions.

2. A *journal* in which the day book entries were rewritten in such a way as to indicate for each item what account should be debited and what credited. This rewriting of the items in the day book into a journal was known as journalizing. The work of journalizing in retail store accounting throughout the nineteenth century was a very laborious task, usually attended to during spare times when there were no customers around to be served or during the late hours of the night after the store had been closed. The journalizing of all day book items was completed once a month. The journal entries furnished the intermediate sources from which postings were carried to the ledger.

3. The *ledger* was a record book showing by accounts a summary of all business transactions. Entries to the ledger were posted from the journal. Each entry, as indicated above, called for two postings, one to the account to be charged and the other to the account to be credited. The ledger was, and still is, the real book of accounts, and all other records are but preliminary and preparatory to entry into the ledger accounts.

These three books, the day book, the journal and the ledger, were for a long time believed to be the essential records for every business and were religiously kept, as indicated above, by every systematically conducted retail shop.

**Changes in Methods of Accounting.**—Many changes have been made in recent years in the methods of accounting. For



one thing the use of the day book has disappeared. Instead, a number of new forms of records have come into use such as the sales book, the invoice book, and the cash book. Sales records in retail stores are now, more often than not, merely sales slips, vouchers, cash register tapes, and so on.

The journal has also been largely superseded. Original records of business transactions in the form of sales slips and vouchers have been devised so that they are self-journalizing. By classification and proper distribution the original records not only take the place of the day book but of the journal as well. Such vouchers are now usually posted direct to the ledgers.

Journals are still utilized in retail accounting but mainly for entries on company accounts such as the assets and liability items appearing on the balance sheets, records of transfers from one department to another within the store, adjustments of values, such as occur when depreciation is taken or losses written off, the closing of accounts, and the distribution of net income to the owners of the business.

The original one-volume ledger has in modern large-scale business been broken up into subdivisions so that one may now find ledgers presenting the accounts with concerns from whom merchandise is purchased, other ledgers presenting the accounts with customers of the store, and still other ledgers summarizing the distribution of expenses.

**Improvements and Labor-Saving Devices.**—Extensive progress has been made during the last twenty years in the direction of simplifying accounting and saving labor. The origins of some of these improvements extend to earlier dates. Their widespread use is a matter of recent years only.

Some of the factors that have contributed to the movement for the improvement of accounting methods are:

1. The rapid rise of chain and department stores, in which detailed systematic accounts are vital, and from which retailers

in general have learned much of the benefits of good accounting.

2. The introduction and evolution of scientific management with its emphasis on records and use of cost accounting as a means of direction and control of the operations of the business.

3. The Federal income tax law which, when it went into effect, forced many retail stores to establish accurate financial accounting records where previously there had been few or none. There are still many small retailers who do not keep careful, accurate records, and this may always continue to be a condition in the retail business, but the day of any marked degree of success without accounting has most certainly quite definitely passed.

Among the improvements recently introduced into retail accounting are the following:

1. Original vouchers, sales and petty cash slips, and tickets have taken the place of both day book and journal as posting mediums to the ledgers. These original records properly planned have been found easier to handle, to sort, and to post than the old day books and journals.

2. Loose-leaf systems have made alphabetical and numerical arrangements of accounts possible and at the same time flexible and expansible.

3. Many column ledgers have come into use making for easy distribution of items among many types of accounts. Such ledgers are frequently used in the classification of sales, in the distribution of merchandise to departments and sections, and in the distribution of expenses.

4. The development of special ledgers, as already indicated, and the use of the general ledger merely for posting special ledger totals, have proved effective improvements.

5. The introduction of mechanical aids to bookkeeping to replace the long-hand systems formerly used has made accounting more economical. Among mechanical devices that are commonly used may be mentioned adding machines, both listing and non-listing, mechanical computing machines, cash registers, typewriters constructed so as to be used in posting as well as in billing, coin-counting machines, check-protecting devices, and punched card electric tabulating machines.



6. The departmentizing of merchandising and beginnings of cost accounting by distribution of expenses to departments are recent developments in most stores. Departmentizing in retail accounting has been one of the most important steps ever taken. The movement toward dividing departments into sections and sub-classifications is still under way. The trend of effort is definitely toward securing costs of handling and selling of individual lines and items of merchandise. How far this movement may eventually be carried it is at present not possible to say.

7. As supplementary means of simplifying the work of the accounting department and reducing its labor burden, efforts have been made by some stores to secure "end of month" dating terms permitting the issue of statements of accounts and of payments to vendors at a stated time once a month; "stagger billing," by which the charge account customers of the stores are divided into four groups, each group receiving its monthly bills for amounts due during different weeks in the month; and "simplified billing" with items making up the bill omitted, and in their place department names or numbers from which purchases were made. All three of these devices, it has been urged, are helpful in reducing the work and expense of retail accounting. All three are, however, still in the process of experiment and have not generally been taken up by the retail trade.

8. The adoption of standardized accounting methods. The study of retail accounting has been so systematically carried on that more or less uniform methods have been adopted by various groups of retail stores. The movement for standard-

ized and uniform accounting methods has arisen very largely as a result of retail trade association activity. Obviously, great values accrue from a comparison of operating methods and costs of doing business of one firm with another. This has led to the adoption by many retail stores of accounting systems, such as those recommended by their association. One of the first steps taken in nearly every important retail trade association program during recent years has been to recommend to its members standard uniform accounting methods.

Highly constructive work, aiding the movement for standardized, uniform retail accounting, has been done by the Harvard Bureau of Business Research which, since 1911, has gathered, compiled, and published statistics of expenses of doing business for various classes of retail trade. The systems used in these studies have served as models for accounting procedure in wide fields.

The Controllers' Congress of the National Retail Dry Goods Association has, since 1917, been a most effective and constructive force in establishing standards of retail accounting and in promoting the uniform adoption of these standards among department and dry goods stores. The influence of the Controllers' Congress has indeed spread far beyond the dry goods and department store field, for its results have either directly or indirectly been used by many other retail trade associations. Its expense classifications have been accepted with little or no modifications by many other groups.

**Purposes of Retail Accounting.**—The main purposes of retail accounting are:

1. To determine the exact financial status and progress of the store.
2. To assist in safeguarding properly the assets and profits of the concern.
3. To supply information that may be used in establishing proper credit facilities at banks, wholesale, and manufacturing resources.
4. To analyze past and present operations with the view to eliminating unprofitable efforts and concentrating upon profitable lines of work.
5. To supply the necessary information for forecasting and budgeting future operations and results.



Whether the system of accounts be for a large or a small store, and whether it be simple or complex, these are the purposes to be achieved.

The functions of the accounting department in a retail store include all record keeping and record making and such other activities as may be necessary to carry out these five purposes.

**The Work of a Retail Accounting Department.**—The organization of a retail accounting department usually follows functional lines. Such lines may be as clearly defined in a small store as in a large store, but with less division of labor among the persons responsible for the work of the accounting department.

The functional subdivisions of retail accounting are as follows:

1. The general account books of the concern, including the subsidiary ledgers of purchases, expenses, and charge sales, the cash books summarizing all cash receipts and disbursements, and the general ledger controlling all assets and liability accounts, and the general profit and loss accounts.
2. Records of accounts payable, including the recording and statistical control of orders, the checking of invoices against orders, extensions and totals at cost and retail values, checking of transportation charges on incoming merchandise, and authorizing payment of same, and making provisions for payment of invoices on proper dates in accordance with terms agreed upon.

3. The detailed records of cash, including all cash receipts and disbursements.
4. Records of merchandise on hand, incoming, and sales.
5. Records of accounts receivable, including the entry of all sales on credit and payments received from customers. This section is also responsible for records of C. O. D. sales and collections.
6. Credits and collections.
7. Auditing or checking all records of sales such as sales slips, cash register totals, cashier totals, charge sales, C. O. D. sales, and so on, and reconciling them with the store's cash receipts and customers' charges for each day.
8. Expense accounting and proper distribution of charges for expenses to the various departments.
9. Time-keeping, payroll records, and payments.
10. In addition to the foregoing the accounting department of a retail store usually keeps the necessary records for the following:
    (a) Insurance of all kinds.
    (b) Leases and rentals.
    (c) Taxes, including federal, state, and local.
    (d) Government and association reports and returns.
    (e) Claims of the store against others and of others against the store.
11. Mail and office functions are usually carried on under the direction of the head of the accounting department:
    (a) Incoming and outgoing mail and postal control.
    (b) General correspondence of the concern.
    (c) Filing arrangements for all store correspondence and records.
12. The preparation of statistics and reports for purposes of information, control, forecast, and planning.

**Outlines of a Retail Accounting System.**—Preliminary to a description of the retail accounting system, it may be helpful to trace the movement of merchandise and of the payments therefor through a retail store. Figure 6 shows these movements in diagrammatic form. Merchandise comes into the store and then, with the exception of what may be returned to their resources for one reason or another, is sold to customers. The diagram indicates to some extent the variety of the transactions by which merchandise is obtained, and similarly the variety of transaction by which merchandise is sold to customers. Out of the receipts from customers the store must meet the costs of merchandise and the expenses of operation. What remains after merchandise has been paid for and expenses met constitutes the profit of the retail store.



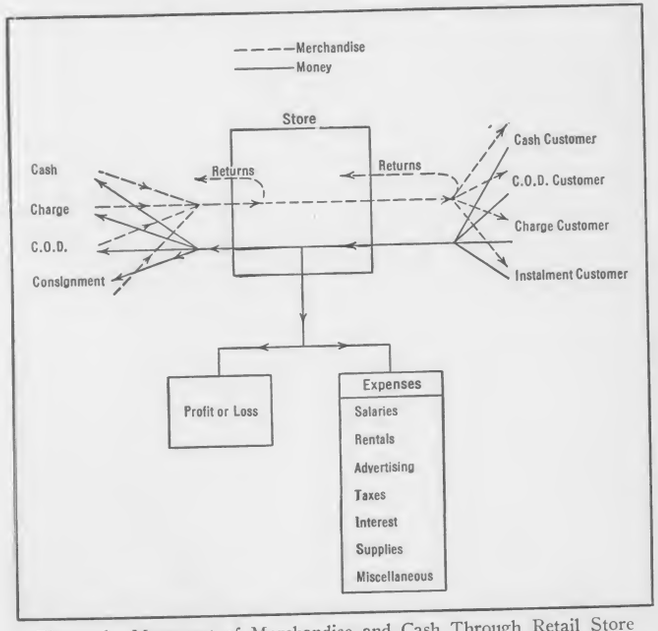



Figure 6. Movement of Merchandise and Cash Through Retail Store

As already pointed out, present-day accounting in retail stores has availed itself of the use of simple original records that are self-journalizing, of subsidiary ledgers, and of a general ledger in which the summaries of the subsidiary ledgers are posted for the purposes of preparing the balance sheet, the operating statement, and the profit and loss statement.

The operation of a retail store bookkeeping system is simple in principle but because of the variety and number of transactions and accounts is somewhat complicated in detail. The diagram of retail store accounting presented in Figure 7 shows the various types of original records made for the various kinds of transactions. It also shows the movement of control from these original records to the subsidiary ledgers and the final postings from these to the general ledger. The diagram indicates graphically to what classes of accounts each original record is debited and credited in the subsidiary ledgers in accordance with the double-entry system. A brief description of the various items appearing on this diagram may be helpful. The following items are numbered to correspond to the order shown in Figure 7.

1. Purchase invoices are the original records representing the purchases of merchandise. Each invoice not only lists the merchandise purchased, permitting easy checking against the store's order and against the actual goods received, but also serves as the vendor's bill. The face amount of the invoice is charged to a distribution record which, in this case, is the merchandise account. In stores that are departmentized the merchandise account is in turn divided into as many accounts as there are departments, and the individual purchase is charged to an individual department. The face amount of the purchase is likewise credited to the vendor's account in the subsidiary ledger of accounts payable.

2. When payments for goods are made, the vendor's account in the accounts payable ledger is charged and the cash



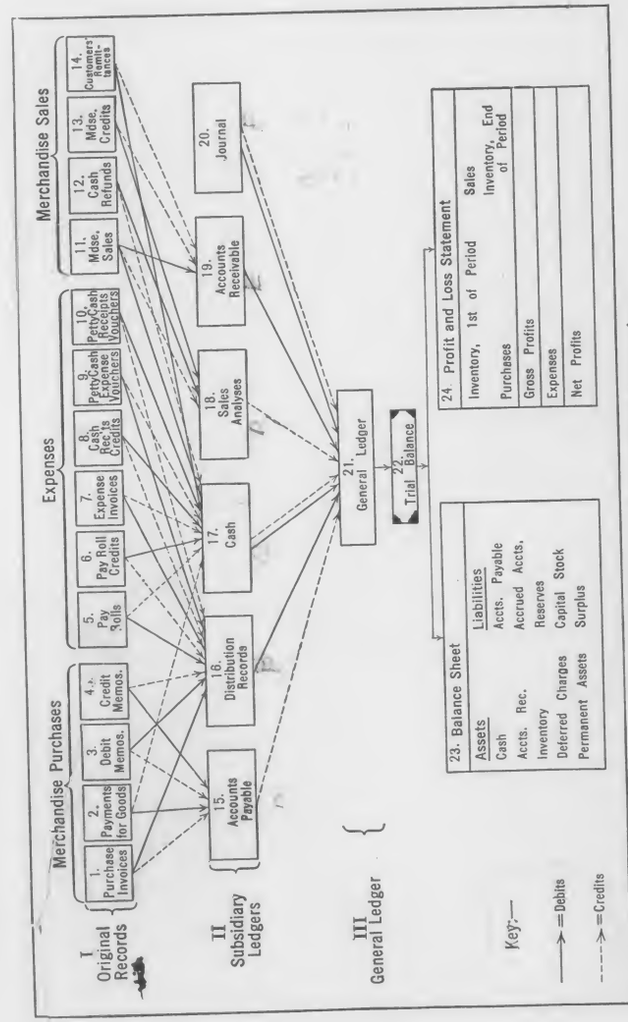



Figure 7. Diagram of Retail Store Accounting

account is credited. When the payment exactly covers the purchases the vendor's account is balanced.

3. There are additional expenses in connection with merchandise purchases, such as transportation charges and manufacturing, or alteration expenses, which are handled by original records called debit memoranda. These are charged to the proper merchandise accounts and credited to accounts payable.

4. Similarly, it is sometimes necessary to make claims for adjustments or for goods returned to the vendor. The records of these transactions are credit memoranda which are charged to accounts payable and credited to merchandise.

5. Payrolls. Salaries and wages as paid are charged to the distribution records, in this case, the salaries and wages accounts, and credited to the cash account.

6. Returns or refunds from salary and wage payments are recorded on payroll credit forms which, when completed, are charged to cash and credited to the distribution records of salaries and wages.

7. Other expense invoices are handled much the same as purchase invoices. The distribution records covering expense classifications are charged and cash is credited.

8. Expense credits that occur as a result of adjustments or refunds are charged to cash and credited to the proper expense distribution records.

9. Petty cash expense vouchers are charged to the proper expense distribution records and credited to cash.

10. Petty cash receipt vouchers are charged to cash and credited to the proper expense distribution records.

11. The original records of merchandise sales consist of sales slips, cashiers' totals, cash register tapes, and so on. Cash sales are charged to cash, charge sales are charged to customers' accounts in the accounts receivable ledger. C. O. D. sales and "will-call" sales are charged to C. O. D. and will-call ledgers, respectively, pending their final disposal either as cash or charge sales. All merchandise sales are credited to sales



account sometimes called "sales analysis," classified according to the types of sale such as cash, charge, C. O. D., and will-call.

12. When customers return goods and obtain their money back, a cash refund slip or record is made out and the amount is charged to sales analysis and credited to cash.

13. When adjustments become necessary in customers' accounts in favor of the customer, a merchandise credit slip, ticket, or record is made out and this amount is debited to sales analysis and credited to accounts receivable.

14. Customers' remittances when received are charged to cash and credited to accounts receivable.

The summaries drawn from the subsidiary ledgers are periodically charged to the general ledger as follows:

15. The total balances of accounts payable are credited to the general accounts payable in the general ledger.

16. The distribution records of merchandise purchases, salaries and wages, and expense purchases are charged to the appropriate general accounts in the general ledger.

17. Cash disbursements for whatever purpose are credited to the cash account in the general ledger, while cash receipts of all kinds are charged to the cash account in the general ledger.

18. Sales analysis totals are credited to appropriate sales accounts in the general ledger.

19. Total balances of accounts receivable are charged to the accounts receivable account in the general ledger.

20. Journal accounts on property, investments, transfers from one account to another, distribution of dividends and surplus, are posted to the appropriate general accounts of the general ledger.

21. The trial balance, usually drawn off monthly, is a list of all debit and credit balances in the general ledger, and since under the double-entry system every debit must be counterbalanced by an equivalent credit, the totals of debits and credits should equal each other and thereby constitute an indication,

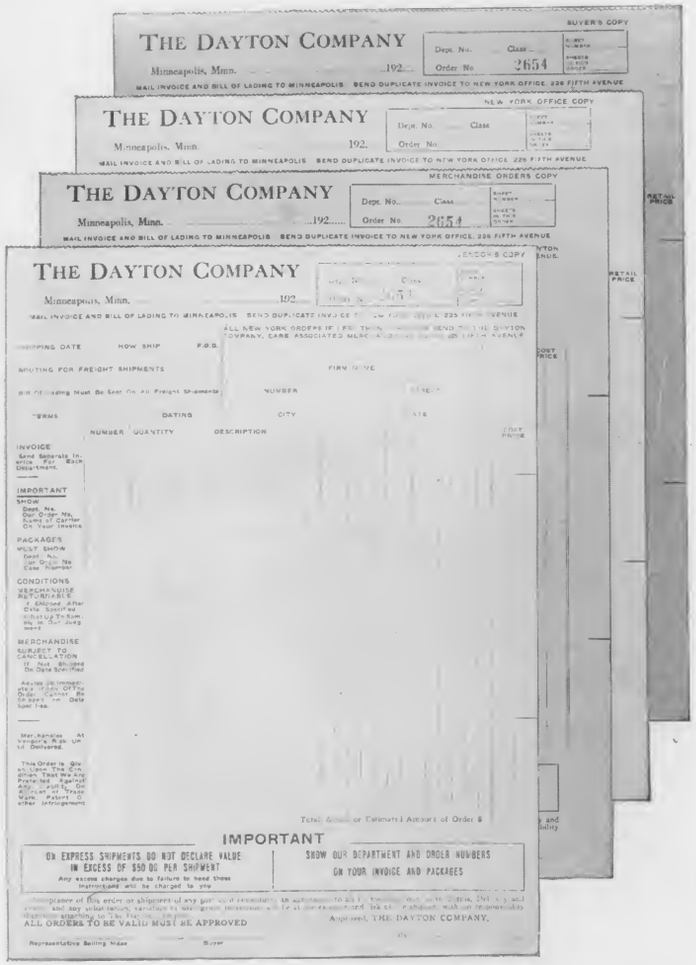



Figure 8. Merchandise Order Form



SHOW EMBLEM OR TRADE MARK HERE (If any)

**UNIFORM INVOICE**

*Always print "Uniform Invoice" in above position*

**YOUR NAME GOES HERE**

NATURE OF BUSINESS
STREET AND NUMBER
TOWN AND STATE

INVOICE NO.
DATE

SOLD TO (Killer Armitage)

*This space reserved for address, permits the use of window envelopes, thus saving the time to address envelopes for the purpose of mailing.*

FOR CUSTOMER'S USE
TERMS
F. O. B.
ACCOUNT
APPROVAL
TRANSPORTATION
RECEIVAL
CALCULATIONS
ADJUSTMENT
AUDITED

SHIPPED TO
SHIPPED FROM
F. O. B.
TERMS
SHIPPED VIA
CAR

| CUSTOMER'S ORDER | SHIPPER'S ORDER | QUANTITY SHIPPED | PACKAGE NUMBER | DESCRIPTION | UNIT PRICE | AMOUNT |
|---|---|---|---|---|---|---|
| | | | | *Columns and Captions within this red block subject to change to fit particular business involved.* | | |

**Advantages of Shipper's Zone**

1. *Centralization of shipping data.*
2. *Continuous writing spaces.*
3. *Natural carriage shifts making for speed in typing.*
4. *Fixed column for Customer's Order Number permitting consolidated billing—that is, all shipments for one day, regardless of order number, should appear on one invoice. This will reduce papers to be handled by twenty-five per cent at least for Shipper and Customer.*

**Advantages of Customer's Zone**

1. *Reservation centralizes Customer's approvals.*
2. *Eliminates Customer's use of rubber stamps and sticker riders with possible loss of riders.*
3. *Prevents defacing invoice and obliterating important data.*

**Size**

*The size may be varied from 8½" x 11" (letter size) to 8½" x 7" or 8½" x 14", depending upon the number of items usually billed.*

*If desirable, the entire form may be printed the long way of the sheet, but in such cases the up and down dimension should always be kept to 8½" for filing.*

*It can be used on any type of billing or writing machine.*

## A Two Zone Invoice

*(One Zone for Shipper—One Zone for Customer)*

**SPECIAL:** This "Uniform Invoice" is sponsored by the Ford Motor Company. When adopted by you, it will be appreciated if you will mail three copies of your "Uniform Invoice" to the Ford Motor Co., Attention P-30, Detroit, Mich., for record purposes.

Figure 9. Model Invoice Devised by the Ford Motor Co.

INTENTIONAL SECOND EXPOSURE



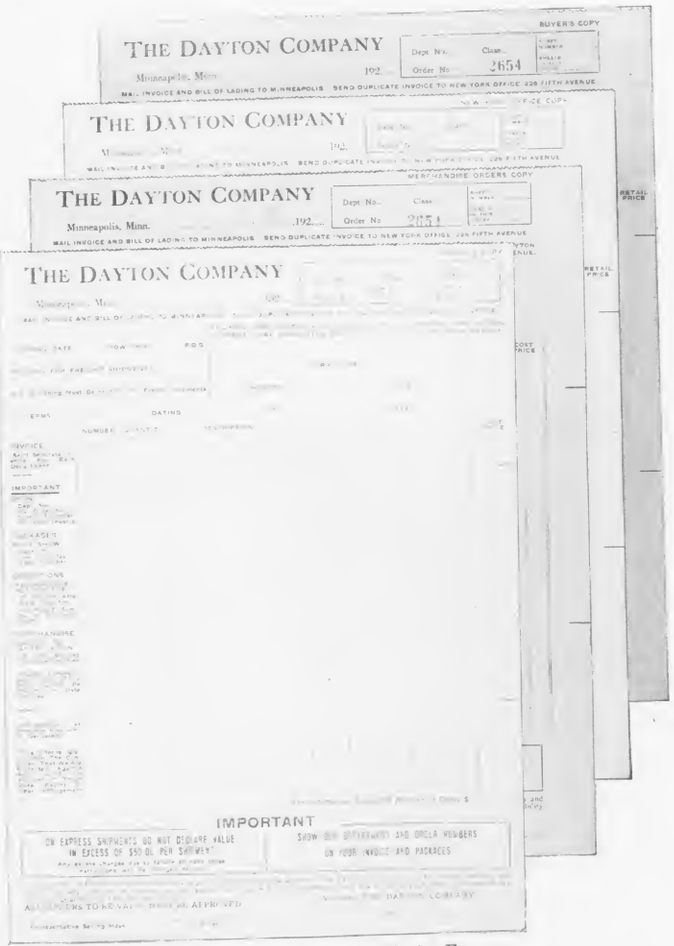



Figure 8. Merchandise Order Form



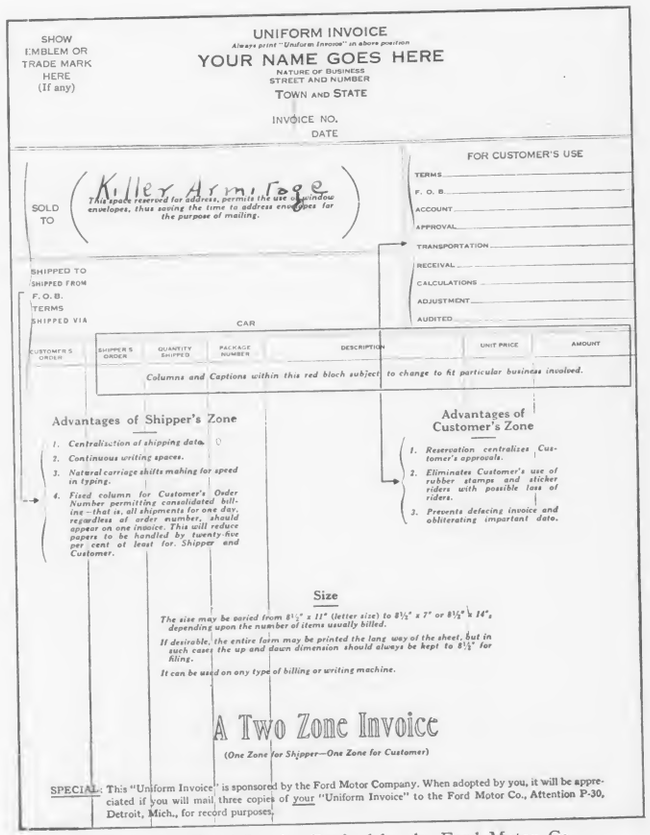



Figure 9. Model Invoice Devised by the Ford Motor Co.

although not absolute, of the accuracy of the accounting records.

22. A classification of the property account balances listed in the trial balance according to assets and liabilities makes up the balance sheet, while a similar listing of operating balances makes up the operating statement from which the profit and loss statement is drawn up.

**Merchandise Order Form.**—Figure 8 illustrates an order blank and its copies such as used by retail stores. Note may be taken that in this case there are four copies prepared of each order, the first copy goes to the vendor, the second to the invoice and order department, the third to the New York resident office, and the fourth is kept by the buyer as a part of his record.

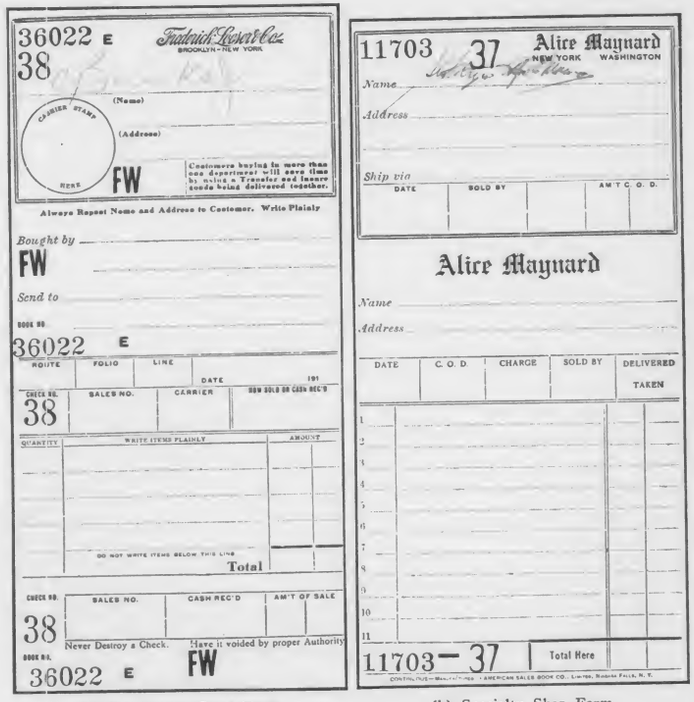
**Model Invoice.**—A model purchase invoice such as devised by Ford Motor Company has received wide recommendation. It has been urged for general adoption because it embodies space for all needed information and because it possesses special advantages of arrangement that minimize labor and time. (See Figure 9.)

**Miscellaneous Vouchers.**—The various forms of debit and credit memoranda, petty cash expense and receipt vouchers, need not be illustrated here. A variety of sales slips such as used in retail stores for the original records of merchandise sales are presented in Figures 10 and 11.

**Mechanical Posting Systems.**—Two systems prevail in posting to the accounts payable and accounts receivable subsidiary ledgers. These are known as the single-posting plan and the dual-posting plan. Under the single-posting plan items of purchase are posted by typewriter to a sheet called a voucher with a carbon copy attached. The voucher, or top sheet, serves as a summary of amounts due and generally includes



a bank check form which, when filled out, together with the voucher is detached from the carbon copy and sent to the vendor in payment for purchases. The vendor upon receiving this separates the voucher from the check and deposits the




(a) Department Store Form. (b) Specialty Shop Form.

Figure 10. Typical Forms of Sales Checks

latter in his bank. The carbon copy remains with the store as the ledger record of the account payable.

Similarly under the single-posting plan, sales made to a customer are entered by typewriter on a top sheet and carbon

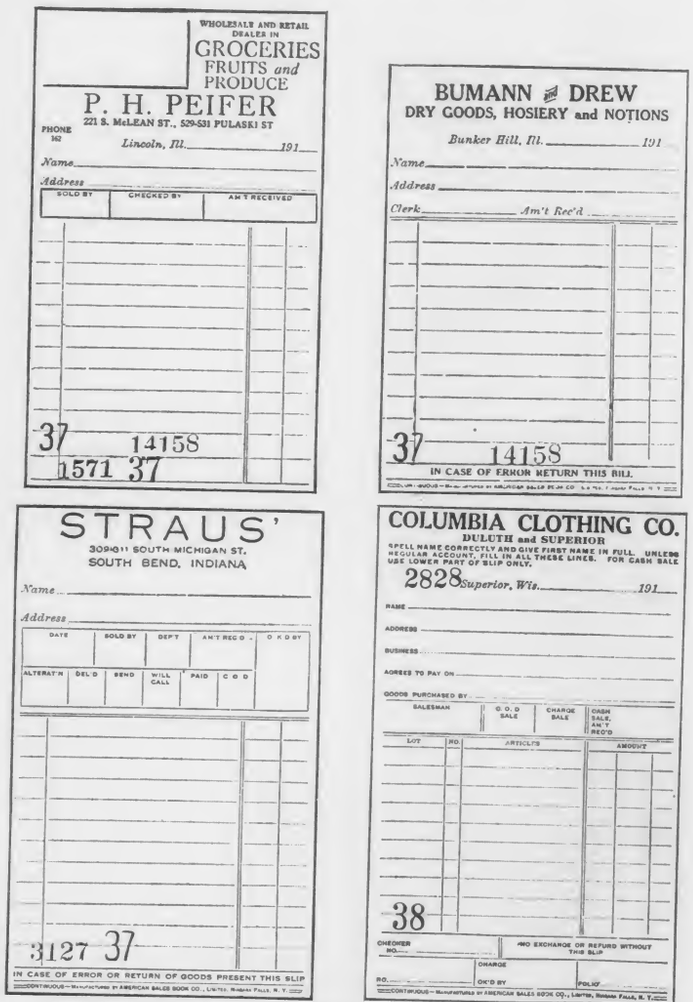



Figure 11. Typical Forms of Sales Checks



copy. The top or original sheet constitutes the customer's bill which at the appropriate time each month is detached and sent to the customer while the carbon copy remains as the accounts receivable record. There is, therefore, but a single writing or posting for each item.

Under the dual-posting plan there are two postings or writings instead of one as above. Ledger accounts and statements of purchases sent to the vendor and statements of sales sent to the store's customers are separately made out. This method takes more time and labor but is said to be more free from errors. Both the single and dual-posting systems have strong adherents in present-day retail accounting circles.

**Model Retail Statements.**—A model form of balance sheet and a model form of operating statement are presented in Figures 12 and 13 respectively. These statements sometimes include more items and in other cases fewer items than indicated here. The forms, however, will serve the purpose to illustrate the principle of their preparation. Figure 14 presents a useful form for reporting retail store operating statistics.

**Distribution of Expenses.**—Proper classification and distribution of the various items appearing in the operating statement is necessary to scientific retail merchandise and expense control. Departmentized retail stores make such distributions of both merchandise and expenses to each department. Retail expenses, as will be seen in the chapter on expenses, may be classified and distributed in several ways, the two classifications best known, and most used, are the natural classification and the functional classification. Figure 15 presents a practical working form useful in making monthly distributions of retail expenses. It will be noted that this form provides for distribution both by natural and functional classifications, both in dollar amounts and in percentages to sales for the month and for the year to date.

**BALANCE**
**Name of**
Date

ASSETS

CURRENT
- Cash on Hand and on Deposit
- U. S., State, and Municipal Bonds
- Accrued Interest
- Notes and Accounts Receivable
- Less Reserves
- Merchandise

OTHER ASSETS
- Securities Owned
- Accrued Interest
- Reciprocal Insurance Deposits
- Cash Value Life Insurance Policies
- Land and Buildings (Not used in Operations)
- Miscellaneous

DEFERRED CHARGES
- Unexpired Insurance Premium
- Prepaid Interest
- Supply Inventory
- Prepaid Expenses
- Miscellaneous

PERMANENT (Used in Operations)
- Land
- Leaseholds:
  - Cost
  - Depreciation
- Buildings and Equipment:
  - Cost
  - Depreciation
- Fixtures:
  - Cost
  - Depreciation
- Delivery and Equipment:
  - Cost
  - Depreciation
- Goodwill—Patents and Trademarks

TOTAL ASSETS

Figure 12. Typical Retail

**Relation of the Accounting Department to Other Departments of the Store.**—The accounting department in a retail store, aside from its regular functions outlined at the beginning of this chapter, exists for the purpose of helping the other operating executives. A soundly organized, well-



**SHEET**
**Company**
....

LIABILITIES

CURRENT
- Notes Payable
- Accounts Payable:
  - For Merchandise and Expense Purchases
  - Miscellaneous
- Accrued Accounts:
  - Payroll
  - Compensation Insurance
  - Interest
  - State, County, and Local Taxes
  - Miscellaneous

FUNDED INDEBTEDNESS
- Mortgages
- Bonds

RESERVES
- For Federal Income Tax
- For Contingencies

TOTAL LIABILITIES

CAPITAL STOCK
- Preferred
- Common

SURPLUS
- Undivided Profits
- At beginning of period

Store Balance Sheet

conducted accounting department in a retail store can render invaluable help to all of its department heads. This has been forcefully and adequately shown in Godley and Kaylin's articles on "The Store-Wide Controller" published serially in "Retailing" during 1929 and to appear in book form early in 1930.

The accounting department should prepare all of the forms and statistics that may be required by the other executives. In the presentation of such information it is the function of

**OPERATING STATEMENT**
**Name of Company**

| | Year Ending 193– | Year Ending 193– |
|---|---|---|
| GROSS SALES | | |
| Less Returns | | |
| Total Net Sales | | |
| COST OF SALES | | |
| Cost Inventory—first of period | | |
| Cost Purchases—during period | | |
| Transportation Inward | | |
| Total | | |
| Cost Inventory—end of period | | |
| Initial Cost of Merchandise Sold | | |
| Alteration or Workroom Costs | | |
| Total Merchandise Costs | | |
| GROSS MERCHANDISE MARGIN | | |
| OPERATING EXPENSE | | |
| MERCHANDISE PROFIT | | |
| DISCOUNT EARNED ON PURCHASES | | |
| OPERATING PROFIT | | |
| OTHER INCOME | | |
| Operating Credits | | |
| Miscellaneous | | |
| DEDUCTIONS FROM INCOME | | |
| NET PROFIT | | |
| DISTRIBUTION | | |
| Federal Income Tax | | |
| Dividends | | |
| SURPLUS | | |
| Additions during period | | |
| At first of period | | |
| Total as per Balance Sheet | | |

Figure 13. Typical Retail Store Operating Statement

the accounting department to give a true picture such as figures may offer, to interpret these facts and figures and, wherever this may be necessary, to show the executives how to use them.

It is not the function of the accounting department to dictate or direct what is to be done by the executives of the other departments. Such action would be as inadvisable as back-seat



**OPERATING STATISTICS**
**Name of Company**
Year Ending.....193..

| | Last Year | | This Year | |
|---|---|---|---|---|
| ANALYSIS OF SALES | | | | |
| Gross Cash Sales | $ | | | |
| % to Total Gross Sales | % | | | |
| Cash Refunds | $ | | | |
| % to Gross Cash Sales | % | | | |
| % to Total Returns | % | | | |
| Net Cash Sales | $ | | | |
| % to Total Net Sales | % | | | |
| Gross C.O.D. and Will-Call Sales | $ | | | |
| % to Total Gross Sales | % | | | |
| C.O.D. and Will-Call Returns | $ | | | |
| % to Gross C.O.D. and Will-Call Sales | % | | | |
| % to Total Returns | % | | | |
| Net C.O.D. and Will-Call Sales | $ | | | |
| % to Total Net Sales | % | | | |
| Charge Sales | $ | | | |
| % to Total Gross Sales | % | | | |
| Charge Credits | $ | | | |
| % to Gross Charge Sales | % | | | |
| % to Total Returns | % | | | |
| Net Charge Sales | $ | | | |
| % to Total Net Sales | % | | | |
| Total Gross Sales | | | | |
| Total Returns | | | | |
| % to Total Gross Sales | | | | |
| Total Net Sales | | | | |
| MARKUP ON INVENTORY AT BEGINNING | % | | | |
| MARKUP ON PURCHASES MADE DURING PERIOD | % | | | |
| MARKUP ON INVENTORY AT END OF PERIOD | % | | | |
| GROSS MERCHANDISE MARGIN—% OF SALES | % | | | |
| OPERATING EXPENSE—% OF SALES | % | | | |
| MERCHANDISE PROFIT—% OF TOTAL SALES | % | | | |
| DISCOUNT EARNED—% OF PURCHASES | % | | | |
| DISCOUNT EARNED—% OF EXPENSE | % | | | |
| OPERATING PROFIT—% OF SALES | % | | | |
| MARKDOWNS (RETAIL) | $ | | | |
| MARKDOWNS—% OF SALES | % | | | |
| STOCK SHORTAGES—RETAIL | $ | | | |
| STOCK SHORTAGES—% OF SALES | % | | | |
| TOTAL RETAIL REDUCTIONS | $ | | | |
| TOTAL RETAIL REDUCTIONS—% OF SALES | % | | | |
| AVERAGE RETAIL STOCK | | | | |
| AVERAGE RETAIL STOCK—TIMES TURNED | | | | |
| TOTAL NUMBER OF SALES CHECKS | | | | |
| AVERAGE AMOUNT OF GROSS SALE | | | | |
| TOTAL SELLING AREA | | | | |
| TOTAL SERVICE AREA | | | | |

Figure 14. Typical Retail Store Statement of Operating Statistics

driving in automobile operation. There is undoubtedly something of a human tendency and temptation for accountants and

**CLASSIFIED EXPENSE STATEMENT**

**Name of Company**

Period Ending .....

| | Administrative | | | | Occupancy | | | | Publicity | | | | Buying | | | | Selling | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Month | | Year to Date | | Month | | Year to Date | | Month | | Year to Date | | Month | | Year to Date | | Month | | Year to Date | | Month | | Year to Date | |
| | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales | $ Amt. | % to Sales |
| 1. Payroll | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Wages, Commissions | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Bonuses | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Rentals | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Advertising | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Taxes | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. Interest | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Supplies | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. Services Purchased | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. Unclassified | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. Traveling | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Communication | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. Repairs | | | | | | | | | | | | | | | | | | | | | | | | |
| 12. Insurance | | | | | | | | | | | | | | | | | | | | | | | | |
| 13. Depreciation | | | | | | | | | | | | | | | | | | | | | | | | |
| 14. Professional Services | | | | | | | | | | | | | | | | | | | | | | | | |
| Totals | | | | | | | | | | | | | | | | | | | | | | | | |

Figure 15. Classified Expense Statement for Retail Stores



controllers who prepare and analyze the figures of a business to criticize operation. When progress is not satisfactory the figures in themselves constitute a criticism and the manner in which they are presented may make them distinctly biting in effect.

Accountants and controllers as a class are likely to be exact, mathematical, methodical people with little sympathy for those with non-mathematical bents. It is easy for the accountant to put his finger on a specific figure and say to his brother executive, "You are wrong." Heads of accounting departments in some stores are for this reason very much disliked persons.

The perennial difficulties between retail accountants and merchandise department heads over inventory shortages, failure to mark the retail prices on inventories properly, failure to report markdowns in the regular way, and the chronic inability of many buyers to stay continuously within their buying limits, are matters that seriously test the patience of the head of the accounting department. Similarly, the relations of the accounting department to the store operating departments, particularly over such matters as expense and expense control, may be constant sources of irritation and antagonism.

The effect of such antagonism is almost certain to be harmful to the best interests of the store. The relationship of the accounting department to all other departments of the business should, at the very least, be impartial and, much better, should be cordial and cooperative. The operating executives of other departments owe the accounting department their assistance and cooperation in such matters as promptness of reporting all essential facts needed and in proper use of the statistics and information compiled by the accounting department.

There rarely ever is a sound excuse for failures of buyers to report markdowns or for failure to mark retail prices on invoices properly and promptly. Difficulties over inventories and shortages are needless. Every retail store has or should

have its recognized procedure for buyers who find it necessary to go beyond their buying limits. Quarrels over this point are indications of bad management and organization.

The store superintendent or manager and his department heads need clear-cut statements of their functions and responsibilities relative to expense control. With responsibilities clearly marked there is no reasonable ground for difficulties between the operating and control division.

The accounting department owes every possible assistance to the other operating executives of the organization. The responsibility for executive action in each department rests upon the head of that department, but the accounting department may do much through compilation of proper facts and presentation of timely reports to help such executives carry their burdens.

It is the function of the accounting and control department to try to help the store's executives rather than to try to find something wrong with them or their methods of operation. The enumeration of mistakes and shortcomings is a futile, useless effort unless accompanied by constructive effort to eradicate them. Cooperative effort accomplishes much more for the retail store than time wasted in trying to prove others in error.

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# CHAPTER III

## RETAIL ACCOUNTING AND CONTROL (CONTINUED)

In the preceding chapter a brief account of the development of modern retail accounting was followed by a statement of the purposes and procedure of accounting as carried out in retail stores at the present time. In that chapter it was pointed out that the functions of a retail accounting department might be divided into twelve groups as follows:

1. General accounting
2. Accounts payable
3. Cash accounts
4. Merchandise accounts
5. Accounts receivable
6. Credits and collections
7. Sales auditing
8. Expense accounts
9. Personnel accounts
10. Maintenance of miscellaneous records such as insurance, leases, taxes, reports, legal claims, and so forth
11. Mail and office
12. Statistics and reports

In this chapter it will be the purpose to describe in somewhat greater detail the work carried on by retail accounting departments in the larger stores in the following groups of functions:

a. Accounts payable
b. Accounts receivable, credits and collections
c. Sales auditing
d. Merchandise accounts
e. Expense accounts





f. Mail and office
g. The preparation of store statistics, reports, forecasts and budgets

**a. Accounts Payable.**—The activities of the accounts payable subdivision in a retail accounting department include all records made pertaining to the placing of orders, receipt of invoices, checking merchandise against invoices, charging the merchandise to departments, and paying the merchandise bills.

**Invoice and Order Routine.**—Large stores separate the accounting work pertaining to invoices and orders from the work of the accounts payable subdivision. Even when separated, however, the work of the accounts payable division follows closely upon and in succession to the work of the invoice and order department.

**The Order.**—The operations of accounting begin with the placing of orders for goods. Merchandise orders are written up by buyers and usually made up into three or four duplicate copies. The first goes to the resource, the second to the invoice and order department, the third is to be kept by the buyer, and the fourth, if there is one, goes to the resident office in the market city.

It has been found highly advantageous to use order forms of standard size, carefully planned to insure a complete record of all information necessary. Buyers are usually required to state carefully on the order not only such specific information about the merchandise desired as to prevent misunderstanding, but also definite delivery dates and the specific terms of purchase. The buyer's order is the store's contract with a wholesaler or manufacturer to buy goods and therefore deserves as much care and consideration as any other contract. Most stores require that every order must be authorized or approved by signature of the merchandise manager or other store executive before it may be finally placed.

**Open Order File.**—When the order is placed, the duplicate copy going to the invoice and order department is placed in an order file for outstanding orders where it may be referred to easily and checked whenever desired. Large stores usually require their buyers to go through their open order files periodically to clear out such outstanding orders as have run beyond normal delivery periods. Such orders are canceled, but if the goods are needed new orders are made out. The open order file is also frequently used as a means of drawing up lists of expected deliveries by dates and by departments.

**The Invoice and What is Done With It.**—When the wholesaler's or manufacturer's invoice is received the date of receipt is stamped on it and, in department stores, a sheet called an "apron" is pasted to the top of the invoice. The apron contains spaces for a number of entries and signatures required as the invoice passes from hand to hand through its regular routine. It is next sent to the order department where it is registered. The invoice register serves as an index of invoices received. After registration the invoice is checked against its order, the copy of which is on file and is then held pending actual receipt of goods.

**Receiving and Checking Merchandise.**—When the goods arrive they are carefully checked against the invoices. Cost price extensions are tested and sales price extensions are computed.

**The Terms File.**—The invoice is next checked for proper terms. Well-organized retail accounting departments maintain what is known as a "terms file," listing all resources and the terms allowed by such resources to the store. Changes, whenever made, are promptly noted in this file. The terms file usually consists of records kept in card form; one card for each resource.



**Invoice Payments.**—Next the invoices are sorted by payment dates and filed in a tickler file so that they may be promptly taken up on the proper day and payments made for the merchandise. The discounts are then computed and a check made out and sent to the resource. The invoice itself is then carefully filed either numerically or alphabetically, according to the filing system used by the store.

**Accounts Payable Routine.**—When the invoice and order work have been completed, as outlined above, the merchandise is priced, marked, and is then charged to the departments. The merchandise accounts will be described in a later section. The accounting records with resources are maintained in ledgers, and are kept up either by the single-posting or dual-posting plans described in the preceding chapter. As often as merchandise is received the vendors are credited and debit postings are made whenever payments are made.

At the end of each month the total purchases of merchandise are charged to the purchase account and credited to accounts payable in the general ledger. Petty purchases, transportation charges, and expense invoices are handled in about the same way as merchandise purchases. The detailed methods for these need not be described here.

b. **Accounts Receivable and Retail Credits.**—The accounts receivable department of the accounting division maintains the records necessary to the operation of the credit department. In some retail stores credits and collections as well as accounts receivable are operated under the direction of a credit manager separated from the rest of the accounting. In others, all of these functions are included under the regular accounting division. When separated it is, of course, essential that there should be the closest cooperation between the accounting and the credit divisions.

There is no part of a retail business that stands in greater

necessity of careful, accurate recording and system than do accounts receivable and the credit department. The dangers of loss run very high. As indicated elsewhere, overextensions of credit and bad debts constitute the main reasons for the failure of a large number of retail concerns. As a matter of fact, careful accounting in most retail stores began with carefully-kept accounts receivable and has only in more recent years been extended to other forms of accounting.

**Opening a Customer's Account.**—The first steps toward the opening of a new customer's account begin with the application in the credit department. The application for credit may be either oral or in writing. Good credit procedure requires that painstaking care must be taken at this point. For all but the smallest stores the information gathered at the time the request for credit is made should be set down in writing.

The standard application forms used in larger retail stores require not only the name and address of the applicant but also family status, business or employment, the names of present and past employers, information or estimates as to income, and finally, references. Among the references most desired are the names of other retailers patronized by the customer, banks and employers, or business associates. Credit responsibility may to some extent be estimated from the ownership of real estate or other property. The size of the applicant's family has an important bearing. Usually, the customer is asked to sign an application for credit. The signature may reveal very little as to character but is very useful as an aid to later identification of the customer.

Among the sources of information found extremely valuable by retailers are the local cooperative retail credit bureaus which maintain credit records of all customers of all member stores. References to the experiences of other stores with prospective credit customers save retailers enormous sums of money every year in collection expenses and bad debts.



**News Items About Charge Customers.**—As a part of the system of keeping in touch with its charge account customers, some retail stores check up all news items pertaining to their customers. Such news may be a valuable means of noting changes in conditions which may affect the standing of the account. Some stores in larger cities subscribe to clipping bureaus, others conduct their own, to get the news concerning their customers on such matters as lawsuits, judgments, foreclosures, bankruptcies, family troubles, divorces, and deaths. Securing prompt information of occurrences of such character, it has been found, helps the store to make immediate collections and to prevent bad accounts from running any higher.

As indicated in the chapter on retail credits, the essence of successful credit practice lies in securing all necessary information at the time of opening the account as pleasantly and with as little pain as possible, but in following up the collections rigidly. In present-day retail conditions it is rather easy to obtain credit, but very difficult for the customer to get out of making his payments. Vigilance in collection is the price of profitable credit business.

**Routine in Connection with the Opening of an Account.**—The opening of an account in a well-systematized retail store includes the following steps:

1. Securing an application blank properly filled out giving all essential information desired and signed by the prospective credit customer.

2. Checking up the references given by the customer and getting the report of the local credit bureau.

3. Passing the credit department and having a credit limit determined.

4. Preparation of an addressograph plate used to head bills and to address envelopes mailed to the customer. A carefully prepared address plate saves possible later errors in addressing and mailing.

5. Opening a ledger sheet with the address at the top printed with the addressograph plate.

6. Sending the customer notice of favorable action on application and including an identification coin or card to be used whenever merchandise is purchased on a charge basis but taken from the store by the customer.

7. Adding the customer's name and address to the master credit index, which lists the names of all credit customers the store has ever had whether currently active or not.

8. Adding the customer's name to the credit authorization index to be used whenever the customer makes purchases. This index speeds up authorization by making it unnecessary to look up the ledger account.

9. Adding the customer's name to a geographic index useful in sales promotion and for other purposes.

10. Adding the customer's name to the billers' index so that the billing clerk may refer to this index to check the accuracy of sales checks sent from sales floor.

Whenever there is a change of address among old credit customers, a transfer of an account from one person to another, as for example, from one member of a family to another, any changes in credit limits, or whenever an account is to be removed, all of the foregoing steps are checked, and records and indexes corrected or cleared. When an account is closed, the name of the person must be removed from all indexes excepting the master index, and must there be marked, or indicated in some way so as to show that the account is no longer active. In stores using coin, card, or other systems of identification, notices are sent to all departments indicating by number such coins or cards as are discontinued.

**Customers' Credit Limits.**—When a customer is placed on a charge account basis the credit department usually sets a money amount indicating to the credit authorization department how much credit may be granted to this customer. This



amount is known as the credit limit and is indicated both on the application and authorization index. Every sale made on a charge basis must be referred to the authorization department, first, to determine whether the customer has an account and second, to determine whether the amount of the purchase plus previous purchases unpaid falls within the credit limit.

**Authorization.**—The authorization of charge sales must be handled in such a way as to take as little time as possible. Consultation of an old-fashioned ledger was the original method of authorization, but the time consumed in looking through the ledger pages for the customer's account made this method objectionable. Speed is secured by the use of an authorization index, which is really a copy of the ledger, but without other entries than the balance of the credit limit open to the customer. By means of modern, visible, index systems, locating a customer's name and checking the credit limit takes but a very small fraction of the time originally required for ledger references.

When a charge customer makes a purchase, authorization of the sale is secured either by sending the charge sales slip through to the authorizing department by messenger, by wire, by carrier or by pneumatic tube systems, or by the use of an electric telephone system. The authorizer looks up the customer's status in the index and if entitled to credit approves the sales check.

Where the electric phone system is used the salesperson places the sales slip in the electrical telephone device located at or near her counter, phones the name and address of the customer and the amount of the purchase. Approval is secured by pressing a button at the authorizer's desk that imprints credit approval on the sales slip held in the sales department. If the customer is not entitled to credit the authorizer sends another signal, upon receipt of which the salesperson tells the customer that there is some question upon which the credit

department desires information, and the customer is then taken to the credit department where the matter is discussed with the customer in a private office. In smaller stores it is usual for the owner or manager or his first assistant to authorize purchases in all doubtful cases.

Distinction in methods of authorization must be made between purchases which the customer desires to take with her and purchases which are to be delivered. "Charge takes" require immediate attention and authorization. The identification coin or card serves the purpose for small amounts up to say $5 or even $10. For sums above this amount the customer must wait for the authorization to be obtained by pneumatic tube or electric telephone.

Authorizing "Charge Sends." In the case of "charge sends," there is a little more time available. The merchandise is still in the hands of the store while authorization is being secured. Methods in handling authorization on "charge sends" vary. In some stores authorization is secured from the authorization department at the sales counters at the desks of the inspector-cashiers in the same way as for "charge takes."

The Drawback System. In other cases, the goods are wrapped and sent to the delivery department to save time, while a copy of the sales slip goes to the authorizers for check-up and approval, or disapproval, as the case may require. If the authorization is approved, the merchandise already sent to the delivery department goes out in the regular way. If the credit is not approved, notice is immediately sent to the delivery department to draw back the package and hold for further instructions from the credit department. The latter is known as the "drawback system" of authorization.

Complicated as these systems may seem, their operation is so efficient that the entire time required for reference to the authorizers with approval or disapproval does not take more than two or three minutes at the most. A great deal of inventive ingenuity has been exerted both by retail store equipment manufacturers and by retailers themselves in reducing the amount of time required for credit authorization.



**Posting to Customers' Ledger Accounts.**—After the charge sale has been approved the sales check is sent to the accounts receivable department for posting. The posting may be performed by either the unit or dual-posting system mentioned in the preceding chapter.

Most stores cut off all posting operations at some date very near the end of the month in order to get their bills into the hands of their customers on the first or the second day of the month. This policy, where followed, prevents the store from securing an accurate record of the entire month's purchases and credits on the current bills but makes a good impression as to the punctuality of the store in the issue of its statements.

**Classification of Accounts.**—Retail accounts receivable are usually classified as regular private open accounts, regular commercial open accounts, deferred payment accounts, and instalment accounts. Each of these classes requires different treatment in both credits and collections.

1. Private Open Accounts. Private open accounts may advantageously be subclassified according to their value to the store, certainty of payment, and similar considerations. Class "A" accounts under such a subclassification would consist of charge customers of excellent resources, assured incomes, and good character. Class "B" customers would include individuals and families of good character of less wealth but with regular incomes, such as fixed salaries. Class "C" accounts might include individuals of small resources and uncertain incomes but with obviously good intentions so far as desire to pay for merchandise purchased. The hazard to the retailer from this group is the danger of misfortune, ill health, or other

causes of failure to pay. Class "D" accounts are those to be carefully watched. They include not only people of uncertain resources and income, but also of uncertain qualities of character. In this class may be found some individuals marked by misfortune but others who, if permitted the opportunity, will become deadbeats.

2. Commercial Open Accounts. Differentiation in treatment of accounts is obviously necessary in the case of business customers, such as hotels, institutions, government departments, industrial concerns, and so on. The credit rating of such organizations is usually established in the national credit rating manuals such as Dun's and Bradstreet's. Occupying a position somewhat between the private personal open account and the business account are the many dressmakers whose status on the books of the store will vary in accordance with the volume of business transacted, and experience in the past.

In addition to making a difference in credit rating between private accounts and commercial accounts, it is also commonly necessary for retail stores to grant certain concessions, discounts, or other conditions to hold the business of commercial accounts. Sales to commercial accounts are made throughout the store in the same way as to other customers. The discounts are computed at the time of billing. Commercial account customers are sometimes termed contract customers, since arrangements concerning all conditions of sales are made by contract.

3. Deferred Payment Accounts. Accounts with customers in which special arrangements are made for postponing the date of payment for the merchandise purchased beyond the regular settlement period allowed regular charge account customers are called deferred payment accounts. If bills are regularly sent to all regular open account customers every 30 days, a deferred account customer is one who is not to be billed



for his purchases for 60 or 90 days or even six months from the date of such purchases. Deferred payment arrangements are frequently made with customers who make large purchases in home furnishings or other goods running into considerable value on condition that payment is to be made at some future date. The term "deferred payment" is sometimes inaccurately applied to instalment payment accounts. (Deferred payment means postponement of all payments, while instalment payments are partial payments made regularly.) Arrangements for deferred payments are usually secured by customers' promissory notes bearing ordinary rates of interest. Frequently, deferred payment goods are sold on a conditional sale contract in which title to the goods does not actually pass until the full payment is made.

4. Instalment Payment Accounts. The instalment plan of payment has become very widely used during the last few years. Such accounts are also segregated from the regular open accounts, first, because of the difference in conditions of sale, and second, because of the necessary differences in methods of collection. The preliminary arrangements on the instalment plan are much the same as on regular open charge accounts excepting that each instalment sale is made the subject of a special contract. The nature and economic effects of credit, both in the form of regular open accounts and of the instalment accounts, are more fully discussed in a later chapter.

**c. Sales Auditing.**—The sales auditing department in a retail store checks up all of the sales transactions in detail and in this way determines the accuracy of the records of the cash receipts and of the postings regularly made to the charge accounts. While the sales audit is intended primarily to secure and assure accuracy in sales accounting, it also serves the purpose of checking errors made by salespeople, of indicating what the errors are, and who make them. In a well-organized store, this information is used as the basis for education for the

salespeopie to improve their efficiency in making accurate, legible records.

The auditing subdivision of the accounting department first collects all sales records, such as sales checks, cash register tapes, cashier totals, and charge account records by salespersons and by departments. They are next segregated according to the type of sale, whether cash, charge, C. O. D., or will-call. A careful check is made to make sure that all sales records are included and that there may be none missing. The next step is the careful addition and readdition of the total sales by each classification. These totals are drawn up by salespeople and by classes of sales and these totals are in turn recapitulated for departments and finally grand totals are made for the entire store which may be compared and checked with the totals already entered through the regular accounting records.

The auditing subdivision also goes over and checks all cash refunds and merchandise credits in the same manner as it handles sales records. Complete sales audits are made daily. The audit of the sales records of one day are usually completed the next.

**d. Merchandise Stock Accounts.**—The retail accounting department maintains a continuous running account of merchandise in stock. This record is usually kept by departments, and in a growing number of instances, by subdepartments or sections. The beginning of the merchandise stock accounts is the physical inventory. To the values found according to this inventory, new purchases are added and sales are subtracted. Other additions and subtractions in the values of merchandise on hand are also recorded. As a result of this running record the accounting department may at any time strike a balance of the merchandise stock account and report the values of goods on hand.

**The Physical Inventory.**—The basis of an accurate merchandise stock record is, of course, an accurate physical inventory. Formerly, retail stores were closed periodically, usually once a year, for a period of a week or more, during which the inventory was taken. The costs to the store in loss of sales for this period, however, were so great that methods were carefully devised to have the inventory taken periodically, both annually and semi-annually, without interference with the store's business relations with the public.



Taking an inventory with the retail business going on at the same time calls for careful advanced planning and preparation. The methods of taking an inventory, however, have been so well standardized that some of the largest retail stores in the country now complete the actual count of merchandise on hand in a very short time. Some of the best-known stores in the country require but a day for the actual inventory process. However, such prompt handling of the physical inventory usually means weeks, if not months, of preliminary preparation, such as planning and providing necessary forms, training employees in the use of these forms and in the methods of taking the inventory, assigning definite tasks to each employee participating, making provision for careful supervision of the work, including checking of the results and, finally, when the inventory sheets have been written up and turned in to the accounting department, having adequate arrangements for checking, for computing extensions, and for making the additions.

In taking the physical inventory it is considered best practice to list but one class of merchandise on a sheet. Each sheet is ruled so as to permit writing the description of each article counted and with column classifications to indicate not only what the merchandise is worth but also its age in stock. The actual counting of merchandise is usually handled by employees working in pairs or teams, one counting and calling the merchandise and the other making the entry. After completing the count and entry of all of the merchandise in any physical unit such as a section of shelving, a show-case, or a

warehouse section, the count is rechecked, preferably by another team, to assure accuracy.

It is the practice in some of the larger stores to have the regular inventory checked up by special test inventories made here and there in the store by highly-trained employees to test the work of the regular employees. Wherever important discrepancies occur between book records showing what stock should be on hand and the actual physical inventory, the inventory is, of course, retaken.

**The Retail Inventory Method Preferred.**—Formerly, physical inventory was taken at cost prices or "at cost or selling price, whichever is lower." When inventories were taken at cost it was necessary to take down the cost figures from the price tickets, but as costs were invariably marked in code, the decoding process consumed considerable time, increased errors, and thereby added to the expense of taking the inventory.

In recent years a great many retail stores have adopted the retail inventory method. Instead of listing the goods on hand at cost prices they are taken down on the sheets and extensions computed at selling prices.

**Advantages of the Retail Inventory System.**—Obviously, the retail inventory method saves the time formerly expended in decoding cost prices but the retail inventory method has many other advantages.

1. It is a simpler method and takes less time.

2. Valuations at selling price, it is urged, are more representative of real values of the stocks than valuations at cost, for selling prices in modern stores are adjusted as often as may be necessary to keep them in line with market conditions and competition.

3. The retail inventory method may be applied in stores of any size.

4. The total valuation of merchandise found by this method



supplies a proper basis of valuations for adjustment of insurance in case of fire losses.

5. It is possible under the retail inventory system to compute the cost of the merchandise at any time by reducing the retail values by the proper percentages of cumulative markups.

6. The soundness of the system has been demonstrated to the Treasury Department of the Government, which has approved its use in the determination of profit and loss statements for Federal income tax purposes.

7. Finally, the retail inventory method constitutes a basic foundation for dollar merchandise control. Where the retail inventory method is used the accounting department can keep an accurate day to day record of the exact selling value of merchandise on hand.

In the use of the retail inventory method it is, of course, essential that every addition to and reduction in stock values be promptly and accurately reported to the accounting department. Omissions or inaccuracies are fatal to this method.

When new purchases of goods are received they are entered in the stock account at both cost and retail. The differences between the total retail value of all goods on hand and the total cost represents the total markup. Sales of goods, reductions, and markdowns are carefully deducted and the book records are accurately maintained so as to show the values of stocks on hand not only at retail but also at cost and the values in the form of markups.

Stores changing from the cost to the retail inventory system frequently begin by taking their first inventories both at cost and at retail and keep this up until the accuracy and full utility of the retail method has been established. Thereafter the inventory at cost is eliminated.

**Unit Stock Control.**—In connection with the control of merchandise stocks many retail stores have developed systems of physical unit control. These systems are in some cases

operated by the merchandise division and occasionally by the store operating division. In many instances unit stock control is carried out under the accounting division as a function of merchandise accounting control. It is unnecessary here to review the relative advantages of unit stock control operation as a function of one division rather than another. Unit stock control is mentioned here because this function is sometimes carried on under the direction of the accounting department.

**Miscellaneous Merchandise Records and Reports.**—The accounting department is responsible for the preparation of departmental merchandising records and reports, for the computation of buying limits or the "open to buy," and for records of slow-selling goods and shortages.

**e. Expense Accounts.**—As a part of the accounting department's responsibility for the store's finances, it is its function to keep detailed records of expense of all classes. Actual operating measures for the control of expense are in some stores made a function of store operation, but in others a function of accounting. Whatever department may be responsible for action affecting expenditures, there can be no question but that the accumulation of expense figures and their analysis should be controlled and handled in the accounting department.

**Prorating Expense.**—One of the most difficult as well as important problems faced by a retail accounting department is the prorating of expenses to individual departments. Expenses for selling and advertising may usually be charged without difficulty to the departments for which these expenditures are made. Selling expense is charged in each department as a direct burden to the sales of that department. Advertising expense is usually charged to each department in accordance with the amounts of advertising used and the costs therefor. Rents are usually distributed according to the amount of space used.



Certain overhead expenses such as for general administration, accounting, personnel work, communication, insurance, and protection cannot be so simply handled. As illustrations of the methods of prorating some of the overhead expenses, the costs of operating the auditing department may be charged against each individual department in proportion to its number of transactions. All expenses of operating the accounts receivable department may be distributed among the departments in accordance with their number of charge transactions. The expenses of operating the accounts payable department may be charged to the various merchandise departments in accordance with the number of orders handled for each. Personnel expenses of all kinds including hiring, training, supervision, timekeeping, payroll, and welfare work may be subdivided among the various departments in accordance with the average number of employees in each. Merchandise insurance and interest on the capital invested in stock may be distributed among the various departments in proportion to the average value of stocks on hand or the average value of stocks on the first of each month. Delivery expenses are usually charged to each department on the basis of the number of packages carried, classified into three or more groups according to size, weight, the care required in handling, and so on.

When it is not possible to prorate expense fairly among the various departments in accordance with the value of sales or of stock, or value of space occupied, or amount of space occupied, number of transactions or packages delivered, such expenses are usually lumped together and distributed on the basis of sales of the various departments. Among such items one may find the expenses of general ledger accounting, protection, general correspondence, bureau of adjustment and expenses for operating customers' waiting rooms, and other similar services.

**Cost Accounting.**—While a great deal of study has been given to the problems of expense distribution, there is still

much confusion and difference of opinion which can only be removed by much careful study. Scientific analysis of the distribution of expenses shows that there are wide differences in the operating expenses in the various departments of retail stores. When the distribution of expenses is carried still further into sections, it is found that there are wide variations of expense even within the same department. If it may be possible in the future to carry cost accounting in retail stores down to lines of goods or to items, it is likely that even wider differences in expenses will be found among them than are now found among various departments and sections. In view of this outlook it is essential that the distribution of expenses be made accurately and scientifically so that each kind and item of goods may be handled with a full knowledge of its costs. As applied to retail store work, expense distribution is the central fact in cost accounting. While much has already been done in this field it is probable that these accomplishments constitute but the beginnings of scientific retail cost accounts.

**f. Mail and Office.**—The head of the accounting department is usually in charge of the central office of the store. Incoming mail is received, opened, sorted, and reissued from the mailing department to the proper departments and individuals. Outgoing mail is likewise collected and sent from here. By centralization of handling of the mail a great deal of time is saved. By means of tickler systems, properly controlled, all inquiries by mail are promptly answered. Central control also saves postage. All general correspondence pertaining to the business of the store is likewise handled and filed in the central office. Stenographic work and typing are controlled from this office.

**g. The Preparation of Store Statistics and Reports, Forecasts, and Budgets.**—Since the accounting department is the center of the store for the collecting, compiling, and recording of all essential figures on the progress of the business, the accounting department is clearly the logical place for the preparation of the various statistics, records, returns, forecasts, and budgets required in the business. Wherever there is figure work to be done, wherever there are analyses of past or present operations to be made, or wherever there are facts or figures to be drawn up in preparation for making future plans, it should be the function of the accounting department to prepare these. In addition to departmental operating reports provided for department heads, the head of the accounting division should be responsible for the preparation of the more general reports required in the management of the retail store. As an illustration of the range of such reports there follows a list presenting titles and brief explanations of the records and reports required, received, and regularly consulted by the general manager of a large, successful, modern department store. This list should be useful to general managers of stores of all sizes, first, to show the range of matters upon which reports are prepared and studied; and second, as a suggestion of possibilities even for stores in which the full list is unnecessary. (See Table 1.)



**Department Managers' Reports.**—In many of the larger, well-managed retail institutions, management reports are periodically required from all operating department heads. Usually the forms of such reports are carefully prescribed. They are invariably drawn up in such a way as to present the essential information on kinds of work accomplished and the outlays of expense. Wherever possible comparisons are made both of achievements and expenses with the same period of the preceding year. Careful account is taken of trends and their directions, such as increases or declines in number of persons employed, in units of work accomplished, in salaries, wages, and other expenses paid out or in unit costs. Thus the delivery department not only reports the total number of packages carried and total costs of operation but also makes comparisons

TABLE 1. A LIST OF REPORTS REQUIRED AND RECEIVED BY THE GENERAL MANAGER OF A LARGE DEPARTMENT STORE

| Kinds of Reports | How Often Received |
|---|---|
| Comparative departmental sales report | Daily |
| Showing sales for same day last year by departments. | |
| Schedule of buyers' trips and absences | Daily |
| Financial report | Daily |
| Bank balances, deposits, and payments. | |
| Department sales and stock reports | Weekly |
| Showing sales, stocks, purchases, markups, markdowns, open to buy, advertising and payroll for week by departments. | |
| Payroll report | Weekly |
| Number of employees, salaries, and wages, sales and transactions for selling departments and units of production for non-selling departments, comparisons with same week of last year by all departments. | |
| Financial report | Weekly |
| Bank balances, deposits and payments for previous week and forecast of obligations to be met during coming week. | |
| Credit adjustment report | Weekly |
| Balance sheet | Monthly |
| Assets and liabilities. | |
| Operating sheet | Monthly |
| Sales, stock, purchases, markups, markdowns, gross profit, expense, net profit. | |
| Analysis of sales | Monthly |
| Cash, charge, C. O. D., will-calls, returns, number of transactions, average sale per transaction with comparisons for same period of last year. | |
| Credit department report | Monthly |
| Collections for month, new accounts, rejections, outstanding balances, costs of handling accounts. | |
| Expense report | Monthly |
| By natural and functional classifications and comparisons with same period of last year and with planned or budget figures. | |
| Cashier's overage and shortage report | Monthly |
| Merchandise orders placed and amounts outstanding | Monthly |
| Slow-selling merchandise report | Monthly |
| Stock shortages | Monthly |
| As inventories are taken. | |
| Employees' discounts | Monthly |
| Amounts purchased by departments. | |
| Insurance report | Monthly |
| Amount of insurance classified by risks, dates of expiration. | |
| Reports of department heads | Monthly |
| Work done, number of employees, salaries and wages, other expenses, unit costs, comparisons with same period last year and comparison with budget for following departments: | |
| Receiving and marking | |
| Purchasing and supplies | |
| Personnel | |
| Mechanical equipment: sprinkler system, elevators, and so forth | |
| Stockrooms | |
| Wrapping, packing, and inspection | |
| Delivery system | |
| Accounting department | |
| Auditing | |
| Credit and collections | |
| Expense control | |
| Newspaper advertising | |
| Direct mail | |
| Display | |
| Mail order | |
| Workroom | |
| Resident buying offices | |
| Import | |
| Unit stock control | |
| Comparison bureau | |
| Customers' service departments | |
| Style and fashion bureau | |
| Employees' loan accounts | |
| Employees' discounts | |
| Want slip system | Semi-annually |
| Delivery equipment report | |
| Departmental summaries and recapitulations | Annually |



with the figures of the preceding month and for the same month of the preceding year, showing whether the costs per delivery are increasing or declining and how much.

Another type of report found useful in retail store practice is a regular survey indicating the number and kinds of errors, complaints, and failures of the store with comparisons for similar past periods. By means of such reports every department head may be required to check up the weaknesses of his own department, and the general manager may give detailed supervision to matters requiring closest attention. Thus the trend of expense per delivery in the delivery department may be definitely and healthily downward, but the reports may also indicate an increased trend in broken and damaged goods. This, then, is the point for the consideration of the management. Investigation may reveal wrong methods of packing of certain classes of goods or any one of a number of other causes which, when corrected, may improve the conditions in this line.

# CHAPTER IV

## THE EXPENSES OF RETAILING

One approach to a clear understanding of what goes on in the retail business is to analyze its expenses. By this method one may find out what some of the important elements of retailing are. Comparisons of the work of one store with that of another are generally made in terms of expenses, or of expenses in relation to sales. Most of the efforts made within recent years to improve retail practice have been aimed at cutting one or more items of expense. An analysis of retail store expense is one of the first steps toward the scientific economic study of retailing. Through analysis and comparison of expenses in various stores, it is possible to locate the reasons for success in some cases and for failure in others. Through an analysis of expense, it is possible to determine the causes of the leaks, wastes, and abnormal elements in the business and so make it possible to eliminate them.

Expense accounting in retailing is closely allied to cost accounting in other industries. Unit cost accounts have not yet been accurately attained in general retail store practice. There are very serious obstacles to accurate unit cost accounts not the least of which are the great variety and number of transactions or units of operation and the costs of securing such accounts. While cost accounting is still largely a theoretical ideal in the retail business, expense analysis and accounting may be considered as the first important step in that direction.

**The Development of Expense Analysis.**—The methods of analyzing expenses current in the retail business have been





developed very slowly and very laboriously over a long period of years. Important as the results of this development may be, it is believed that there still lie very important research possibilities in this field for the purpose of making accounting still more useful in the control of the business. It will be of value to trace some of the steps in this development and to point out possible lines of future progress.

**Retail Expense Investigations.**—The most notable contribution to retail cost accounting has been made by the Harvard Bureau of Business Research. In 1911, the Bureau of Research of the Graduate School of Business Administration of Harvard University began investigating the expenses of retail distribution of shoes with a view to collecting facts suitable for educational purposes. A certain amount of field work in gathering data during the summer convinced the managers that such investigations would be useless until some standard classification of expenses had been devised. The data collected from different stores at that time represented very different things. Up to 1911 there had been no uniform classification of elements of expense generally adopted in the business. Therefore, accurate comparisons could not be made.

As a preliminary step to further work, it was determined to prepare a uniform accounting system. A joint committee composed of accountants of national reputation and of most representative shoe men in Boston and vicinity was secured. As a result of their labors and counsel, and that of the Bureau, the "Harvard System of Accounts for Shoe Retailers" was given to the trade early in 1912.

By slow degrees a number of shoe retailers the country over were induced to adopt this system and to send in their results as computed under this system to the Bureau. A bulletin giving a general statement of the results found during the first year of its operation was published by the Bureau in May, 1913. This report was followed at periodic intervals by

additional reports on various phases of shoe retailing and on operating expenses for the years from 1919 down through 1923 inclusive.

Other research bureaus in various other universities, such as the University of Nebraska, Northwestern University, Ohio State University, University of Colorado, and the University of Michigan, have since compiled extensive and important studies of the expenses of doing business in various classes of retail institutions. Several important studies have also been made by individual members of faculties of colleges and schools of business. References to these will appear in the bibliography.

A great deal of work has been done to promote better retailing accounting since 1913. Several business institutions selling retail store equipment such as the Burroughs Adding Machine Company, the National Cash Register Company, and the Lamson Company have, in connection with their advertising and sales promotion campaigns, carried on an intensive education among their prospects and customers on how to figure their expenses and profits.

Most of the trade papers serving the retail trade have not only urged the need for careful expense accounting in their editorial columns but have published almost countless numbers of articles on accounting and in some instances have conducted service bureaus for their subscribers, to answer questions on the accounting methods promulgated.

The National Association of Credit Men early interested itself in proper retail accounting and published a suggested classification of expenses that would be useful to retailers. The National Implement and Vehicle Association for several years conducted an extensive campaign for accurate cost finding in retail businesses handling agricultural implements and vehicles. Frank E. Goodwin, editor of a St. Louis trade paper known as *Farm Machinery*, claims to have been one of the



first to begin a systematic study of the costs of doing business in a retail store. These studies date back to 1908.

Probably one of the first to urge the study of expense accounting for small retailers was Harry B. Mason, editor of the *Bulletin of Pharmacy*, who, from 1905 on, continually urged, through the editorials of his paper and by addresses before trade associations, colleges of pharmacy, and elsewhere, the need for better costs accounts. There does not appear to have been much trade paper or trade association discussion of the subject in any retail field before 1905. This fact illustrates how recent the whole movement for more careful analysis of retailing expenses really is.

Thomas A. Fernley of Philadelphia carried on a remarkable work for promoting better methods of retail accounting. As secretary of various national trade organizations, Mr. Fernley compiled a large number of facts regarding the retail trade and published several monographs on the subject[1] that were given a very wide distribution. In conversation with Mr. Fernley, the writer was told that the studies preceding these publications began in the later '90's and were carried on by both Thomas A. Fernley and his father, T. James Fernley, for several years secretary-treasurer of the National Hardware Association of the United States, of the National Wholesale Dry Goods Association, and various other groups.

Since 1916, a more general public recognition has been accorded to the problem of retail accounting, including the study of retail expenses. In that year, the U. S. Federal Trade Commission published a pamphlet entitled "A System of Accounts for Retail Merchants." Later reports on investigations made by the Commission, such as on "The Wholesale Marketing of Foods" in 1918, contributed much information on the subject.

The expenses of the retail business come in for wide public

[1] A collection of monographs, including "Cost of Doing Business" and the "Right Way to Figure Profits," was published in 1912 under the title "Price Maintenance," by Thomas A. Fernley.

consideration in connection with the studies that developed in 1919 and 1920 on the rising costs of living. Many investigations followed in various parts of the country on "What Becomes of the Consumer's Dollar," and other similar titles, all of these invariably considered the retailers' margins, expenses, and profits. Notable among these reports were the publications of results of investigations by the Agricultural Experiment Station of North Dakota on "Fargo and Its Grocery Stores," 1920; by the State Department of Agriculture of Minnesota on "Costs and Profits Involved in the Handling of Sugar," "Bread," "Clothing," "Shoes," and so on, in 1919; and by the Wisconsin Agricultural Experiment Station on "What the Retailer Does with the Consumer's Dollar," in 1920.

During the period of business depression of 1920-1921, there was an intense public interest and in many cases antagonism toward retailers for their part, as it was believed, in the high costs of goods. Many local studies were directed at the retail business. Most of these came to nothing, except for the irritation and exasperation caused retailers who were already harried and worried by their own problems due to the depression.

Congress engaged in this general desire to investigate the retail trade by the appointment of the "Joint Commission of Agricultural Inquiry," of the 67th Congress, First Session, under the Chairmanship of Hon. Sydney Anderson. Among other things this Commission was to determine: "The cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer."

The Commission held hearings, collected a great deal of valuable information and published encyclopedic reports not only of the distribution margins of food, but also of clothing, fuel, and shelter. The conclusions and recommendations were general and educational, very properly, rather than specific and revolutionary. The main value of these reports lay in the



publicity turned on the problems of distribution. No legislative changes occurred as a result.

The U. S. Department of Commerce in 1924 published a series of bulletins on "Retail Store Problems," including one on budgetary control in retail store management. Following the establishment of the Domestic Commerce division in the U. S. Department of Commerce, further intensive studies have been made on expenses of doing business in retail stores.

For a number of years there has been a constant agitation favoring a Federal Census of retail trade which, if made extensive enough, might consider such details as sales volume, retailers' margins, salaries and wages, and expenses of doing business. The first general Federal Census of Distribution is to be a part of the regular decennial Census of 1930.

In 1928-1929, the U. S. Department of Commerce actively participated in a comprehensive survey of retail conditions in Louisville, Ky. The object of this survey, otherwise somewhat local in character, was to secure detailed information on retailing conditions that would prove helpful to retailers and distributors throughout the country.

The U. S. Department of Agriculture has also made several thorough studies of the expenses of marketing meats at retail. Some of these studies during 1923-1924 were made in cooperation with the Bureau of Business Research of Northwestern University.

In 1925, the Chamber of Commerce of the United States held the First National Distribution Conference in Washington, at which extensive reports on expenses of doing business were made and published. Most of the figures published at this conference had been drawn from other sources such as the Harvard Bureau of Business Research and similar organizations, but publication by the Chamber of Commerce undoubtedly helped to outline extensively the problems of retailing to business men and to the public generally.

Very noteworthy work on retail accounting and classifica-

tion of expenses of retailing has been made by the Controllers' Congress of the National Retail Dry Goods Association, by the National Retail Hardware Association, by the National Manufacturers' Association, and, more recently, by the Druggists' Research Bureau, established by the National Wholesale Druggists' Association but acting in the service of the entire drug industry. The retail trade is especially indebted to the Controllers' Congress for the thoroughly systematized classification of retail expenses worked out and published by that group.

Retail expense accounting is now thoroughly established in most of the leading retail stores of the country especially among department stores and chain stores. There are considerable variations in the use of such accounts among independent retailers. There are some retailers, even among very small stores, who have a highly accurate knowledge of what their expenses are, whereas there are multitudes of other retailers who have but very hazy estimates of the actual expenditures in their stores.

The need for urging the value of retail expense accounting analyses has probably passed by. The promotion that has been carried on in favor of such accounting for twenty-five years or more has fixed that idea. Retailers who still attempt to get along without such accounts are probably hopeless. There is still a great deal of work to be done in the development of expense accounting and especially in expense analysis for purposes of store control, but progress in the future is likely to come in improvements and refinements rather than in elements. The foundations appear to be well-laid.

**Retail Expenses.**—The financial outlays of a retailer are of two kinds: first, for merchandise, and, second, to cover the expenses of conducting the business. If one may compare a retailer's business with a manufacturing concern, the outlay for merchandise is much the same as the manufacturer's outlays for raw material, and the costs of conducting the retail business are similar to costs of manufacturing—labor, rent, general expenses, etc.



What the retailer pays for the goods is not their total cost when handed over the counter to the consumer, any more than the cost of raw material is the total cost of the finished product that the manufacturer offers for sale. Nothing but looseness of speech and of thought can account for the common use of the word, profit, as if it were the full difference between what the retailer pays for the goods when he buys them and what he receives for them when he sells them.

The true costs of the goods include the purchase price plus all expenses of transportation, drayage, and so forth, necessary to bring the goods to the store. Then, in addition to this first cost of the goods laid down, there are the costs of selling them. It is the latter, the costs of selling the goods in a retail store, that will be outlined in this chapter. It should be noted in passing that all freight, express, parcel post, and cartage on incoming goods are added to and considered a part of the purchase price of the goods. Only after the goods actually reach the store can the selling expense on them be said to commence.

**Classifications of Operating Expenses.**—In the studies of retail accounting and of retail expenses, various classifications have been used. It may be helpful to enumerate some of the possible classifications and then describe in detail those most widely used. In general, it is possible to group the various expense classifications under three main headings as follows:

1. Economic
2. Accounting
    a. Direct and indirect expenses
    b. Natural
3. Operating
    a. Departmental
    b. Functional

**1. Economic Classification of Expenses.**—In textbooks of general economics it is commonly stated that there are four factors of production, viz., land, labor, capital, and management. A retail business, like all other economic enterprises, possesses these four factors. The land factor comprises the location utilized by the store. The labor factor includes all of the services given to the business by all of the people from manager down to the errand boy employed in it. The capital includes all that for which money has been laid out—such as merchandise, fixtures, and equipment of all kinds. Management correlates and makes all of these factors work together. A simple classification of expense can be based on these four factors, viz., rent, wages, interest, and profits.

This classification has its value for purposes of general economic discussion, but in a special treatise on a particular field of economics, such as the distribution of goods at retail, this classification is not detailed enough to be as serviceable as it should be. For a better enumeration of the factors of a retail business we must go to the accountants who have made a special study of cost finding in the retail business.

**2. Accounting Classification of Expenses.**—Classifications of expense are based on accounting functions rather than economic or operating. One of the simplest of the accountant's methods of classification is into direct and indirect expenses. Direct expenses are those which may be charged without doubt or question to particular departments or operations, while indirect expenses, often called overhead expenses, are incurred in the general interest of all activities and departments and cannot easily or simply be apportioned or prorated to departments.

A more comprehensive accounting classification of expense that has recently received wide expansion is known as the natural classification based upon the nature, kind, or origin of the expense. The natural classification of expense will be outlined in detail a little farther on.



**3. Operating Classification of Expenses.**—Operating classifications of expenses aim at the use of expense figures and expense information in guiding and controlling the operating activities of the concern. Operation classifications are sometimes based on departmental divisions and in other cases on functional divisions or lines. The classification of expenses by departments or administrative units, when used, follows the regular departments as organized and as shown on organization charts. The object of this type of classification is to secure definite information upon the operating expenses of each department and in turn to place definite responsibilities on each department head for the expense incurred in his department. With successful tabulations of department expenses over a period of time, the trends as to expenses for each department may be definitely traced and such operating measures taken as may be deemed necessary to correct danger features. From the operating standpoint it is highly advantageous to have the expenses, either of the business as a whole or of departments, broken down according to the kinds of work done or outlays neglected. This type of classification is called functional. There are at least two functional classifications in use in the retail trade, one widely followed and the other, less well-known, coming in for consideration. The first and better-known functional classification divides operating expenses into the following subclasses:

a. Administrative and general expenses
b. Occupancy expenses
c. Publicity expenses
d. Buying expenses
e. Selling expenses

These subclasses may in turn be broken down into details so that by periodical checking the trends in each may be traced and action taken to control each activity to a marked degree.

The second type of functional classification has received considerable attention because of its use by the U. S. Depart-

ment of Commerce in the Louisville Grocery Survey of 1928-1929. In this survey the cost records of each grocer whose business was studied were set up in a new way. Subclasses of expenses under this classification include the following:

a. Merchandise costs, including all outlays required to purchase the goods sold, including all expenses of transportation and handling up to and including laying them down in the retailer's place of business.

b. Maintenance expenses including all items necessary preparatory to offering the merchandise for sale. This group includes rent, taxes, insurance, depreciation on building, interest on investments, light, heat, and other expenses connected with the maintenance of the storeroom until the goods can be offered for sale.

c. Movement expenses, including all costs involved in making the sale and moving the goods from the dealer's shelves into the hands of the consumer. This subclassification includes salaries, and wages of the salespeople for such part of their time as is devoted to actually waiting on customers, assembling the items wanted by the customer, putting fresh supplies of merchandise on the shelves to replace those sold, and the expenses of delivery, returns, adjustments, and so on.

d. Administrative expenses include those items commonly classified as overhead expenses, such as administrative direction, accounting, credits and collections, bad debt losses, and salaries for the time of those employees who give their attention to these activities.[2]

The natural and functional classifications of expenses have, as already indicated, received the widest consideration and adoption in the retail trade. Both will be described in detail. The comparative figures offered in the following tables of retail store expenses are all based on the natural classifications.

[2] The Description of Louisville Survey Classification of Expenses as taken from a report of an interview given by Dr. Frank M. Surface, of the Bureau of Foreign and Domestic Commerce of the U. S. Department of Commerce, in the *Journal of Commerce*, August 9, 1929.



**Common Accounting Terms Used in the Retail Business.**—Before attempting to describe and define the subclasses under each of these classifications, it will be necessary to define some of the accounting terms used in retail expense accounting.

By *gross sales* is meant all sales of merchandise, both cash and credit, without any deductions for returns, discounts, adjustments, or losses.

By *net sales* is meant gross sales less all returns from and allowances to customers. Where trading stamps are used, their cost is deducted from gross sales as if they were trade discounts. In some cases the use of trading stamps is treated as a form of advertising, but many good retail accountants urge that it is wiser to consider the expense of trading stamps as a discount from gross sales. Whenever the term sales is used in this book, it is to be interpreted as net sales. Net sales are the basis for computing all percentages of expense and profit.

By *cost of merchandise sold* is meant the price paid for the goods plus freight, express, and cartage incurred in placing the goods in the store. Deductions from the total are made for the returns from the retailer to and allowances received from wholesalers or manufacturers, although practice varies. Cash discounts taken for early payment of bills should also be deducted from merchandise costs. All advertising, transportation, and special allowances made by the vendor should also be deducted from merchandise costs to show the net cost.

*Turnover* is a term with a variety of meanings.

It is sometimes used as a synonym for the annual sales of the store. Usually when turnover is mentioned in England it means the same as sales.

Turnover is, according to certain accountants, the ratio of working capital to the volume of sales for a period of a year. By working capital is meant the excess of current assets over current liabilities.

Turnover is also, sometimes, considered as the ratio of the

net sales to cost of the merchandise sold. This may be specifically called capital turnover.

American accountants frequently define turnover as "the number of times capital in the form of stock in trade is reinvested in stock in trade during a given period."

In the best and most proper use of the term, turnover may be defined as the ratio of average stocks to sales for some standard period such as a year. It can be computed accurately in either of the two following ways:

1. Divide the net sales by the average inventory at retail prices.
2. Divide the net sales reduced to costs of the merchandise sold by the average inventory at cost prices.

Both methods should give the same results. Either, therefore, offers a correct statement of *stock turnover*. In making comparisons of the rates of turnover, it is clear that careful account must be taken of the methods used in each instance in computing the rate of turnover.

The *gross margin* is the total difference between the cost of the merchandise sold and of net sales. The term "gross profit," is frequently used by accountants but, as indicated in a preceding paragraph, only a small part of the gross margin is actual profit so that the term, "gross profit," is objectionable.

*Net profit* is the balance remaining from the gross margin after payment of all expenses.

**The Natural Classification of Operating Expenses.**—The classification of expenses into natural divisions is based upon the nature or the kind of the expense regardless of its use or function. There are 14 general natural divisions of expense as follows:

1. *Salaries and wages* include all payments in every form for all persons engaged in the business, including commissions, bonuses, premiums, "spiffs," and so forth.



2. *Rentals* include all outlays for leased property such as buildings, including the store, warehouses, and buying offices used in the business. Where store buildings are owned the value of the rental at prevailing market rates is estimated to obtain a fair approximation of this expense.

3. *Advertising* includes all expenses for all forms of advertising such as newspapers, periodicals, handbills, calendars, novelties, and supplies used in window and interior displays.

4. *Taxes* include all payments assessed by state or municipality against merchandise, store equipment, or personal property used in the business. It also includes license fees, occupation, mercantile, and real estate taxes. Income and excess profits taxes are by law excluded, since these taxes are considered as assessments against the net profits.

5. *Interest* is the remuneration for the capital invested in the business. What interest should be charged and, indeed, whether interest should be charged at all, have been subjects of much controversy and are still far from settled. Wherever this expense classification is set up it includes all interest paid on capital borrowed for use in the business and also an allowance at current interest rates on capital owned and invested in merchandise and equipment but not included in the estimated rentals, interest estimated on the cash used in the business, and finally, on the balance of accounts and notes receivable on the one hand, and accounts and notes payable on the other. It will be noted that only productive assets are included in these totals. Goodwill and investment values, as well as other assets not used in the business, are excluded. Usually an interest rate of 6% is taken as a basis for computation on all capital owned.

6. *Supplies* expense includes all outlays for materials used in operating the business such as wrapping material, boxes, bags, cartons, twine, tags, sales books, water, ice, coal, gas, and subscriptions to publications and services.

7. *Service purchased* includes light, heat, power, and delivery when these services are purchased from outside sources.

8. *Unclassified.* This division is intended to provide for expense items that cannot readily be classified in the other natural divisions. Among the individual items that find their way into this division are such as classified advertising when used to secure additional employees, memberships in organizations, entertainment, welfare work, inspection fees, car fare, cashier shortages, errors, cash donations, unauthorized purchases, and discounts not taken.

9. *Traveling expenses* include all items incurred in connection with travel for the business such as buyers' trips and executives' visits.

10. *Communication* covers all outlays for postage on letters and direct mail, but not parcel postage on merchandise shipped out, telephone, telegraph, and cable charges.

11. *Repairs* cover all expenses of the store on repairing the building, fixtures, and equipment of all kinds, not otherwise provided for by depreciation reserves. This item does not include expenditures for new equipment or for improvements which may properly be charged to capital assets.

12. *Insurance* includes all expenses for all forms of insurance.

13. *Depreciation* provides for two classes of value declines, namely, depreciation covering amortization, wear, tear, and obsolescence of building, leasehold, fixtures, and equipment. These rates of depreciation vary with the type of building and for the various types of fixtures and equipment. Building depreciation may be at from 2% to 5% per annum; equipment from 10% to 15% per annum. The rate of depreciation on delivery equipment amounts to about 20% per year. Depreciation is also usually provided against losses that result from bad debts and collection expenses.

14. *Professional services.* This item includes all expenses for accounting, auditing, legal advice, advertising, and security services, and for credit information and other professional services purchased.



**Functional Divisions of Expense.**—The main functional expense divisions are as already indicated as follows:

1. *Administration and general expenses,* including all expenses of whatsoever kind necessary to the operation of the executive offices, accounting, auditing and billing, finance, credit, mail, and stenographic departments, and miscellaneous items not chargeable elsewhere.

2. *Occupancy* includes, besides rentals, all expenses of keeping the store clean, in good order, properly heated and lighted, safe from accidents, and in suitable condition for operation.

3. *Publicity* includes all items of expense for all forms of advertising and display used by the store, including the salaries of employees engaged in the work of this department and the rent for the space occupied.

4. *Buying* includes the salaries and wages of buyers, traveling expenses, receiving, marking, and stockroom expenses, together with the charges on other expenses incurred by the store in maintaining resident buying offices or in having resident office connections.

5. *Selling expense* includes salaries, wages, and all other forms of remuneration paid to the sales force. All supplies used in the sale of goods, mail and telephone expense incurred in selling goods, and, finally, all expenses incurred in the delivery of merchandise to customers, including all expenses for exchanges and adjustments that may be necessary after the sales are made.

**Expense Subdivisions.**—Expenses both in the natural and functional classifications may be subdivided into numerous finer divisions. Small stores make but a few subdivisions, whereas large stores may break up these divisions into a great number of classes. The accompanying table illustrates the

TABLE 2. TYPICAL SUBCLASSIFICATION OF NATURAL DIVISIONS OF EXPENSE SUCH AS USED IN MEDIUM-SIZED STORES[3]

I. SALARIES AND WAGES
a. Executive office
b. Accounting office
c. Superintendents and general stores
d. Operation and housekeeping
e. Maintenance, mechanics
f. Advertising
g. Display
h. Buyers and assistants
i. Salespeople
j. Merchandise management
k. Outside buying offices
l. Receiving and marking
m. General selling
n. Delivery

II. RENTALS
a. Land, buildings, and building equipment
b. Fixtures and equipment
c. Outside buying offices

III. ADVERTISING
a. Newspapers
b. Direct mail
c. Miscellaneous

IV. TAXES
a. Administrative, state, county, and city
b. Land, buildings, and building equipment
c. Fixtures and equipment
d. Outside buying offices
e. Delivery

V. INTEREST
a. Merchandise investment
b. Land, buildings, and building equipment owned
c. Leaseholds
d. Fixtures and equipment
e. Rolling stock delivery

VI. SUPPLIES
a. Administrative
b. Operating and housekeeping
c. Light, heat, and power
d. Advertising
e. Display
f. Merchandise management and buying
g. Receiving and marking
h. General selling
i. Delivery

VII. SERVICES PURCHASED
a. Cleaning
b. Light, heat, and power
c. Delivery

VIII. UNCLASSIFIED
a. Bad debts
b. Donations
c. Operating and housekeeping
d. Light, heat, and power
e. Advertising
f. Display
g. Merchandise management and buying
h. Receiving and marking
i. Net cash shortages
j. Delivery
k. Miscellaneous

IX. TRAVELING
a. Merchandise management and buying
b. Receiving and marking
c. Demonstration
d. Operating and housekeeping
e. Advertising
f. Display
g. General selling
h. Delivery

X. COMMUNICATION
a. Postage administration
b. Postage, direct mail
c. Total store telephone
d. Telegrams and cables

XI. REPAIRS
a. Buildings, fixtures, and equipment
b. Rolling stock delivery

XII. INSURANCE
a. Administrative
b. Buildings and building equipment
c. Fixtures and equipment
d. Outside buying offices
e. Rolling stock delivery

XIII. DEPRECIATION
a. Buildings and building equipment
b. Leaseholds
c. Fixtures and equipment
d. Outside buying offices
e. Rolling stock delivery

XIV. PROFESSIONAL SERVICES
a. Administrative
b. Advertising
c. Outside buying agencies



breakup of the natural expense divisions as commonly followed in medium-sized retail stores. (See Table 2.)[3]

**Sales Versus Costs as Basis for Computing Ratios of Expense.**—After classifying the expenses of a store according to natural divisions or any other method, it may be necessary to reduce the results to percentages before they can be compared with similar figures from other stores, or even with results from the same store for years past. But in order that the percentages may be comparable, they must be computed upon the same basis. At this point there has been much disagreement among retail store accountants. Some have claimed that the costs of the goods should be used as the base, while others insist that the sales should be considered as the base. Trade papers have teemed with articles on both sides of the question. It is obvious that either may be used with accuracy if adhered to consistently. The trouble has been that dealers have very generally computed some of their percentages on sales and others on costs. The results are naturally incomparable and confusing.

Taking all things into consideration, there seems to be some advantage in computing expense and profit percentages on sales rather than on costs, and for this reason all percentages in this book are based on sales. These advantages were well summed up in a little pamphlet published several years ago by the Burroughs Adding Machine Company, written by Thomas A. Fernley, entitled "Twelve Reasons Why the Percentage of Profit Should Be Figured on the Selling Price and Not on the Cost." The reasons were as follows:

1. Because the remuneration of salesmen is figured on a certain percentage of the selling price.

2. Because the percentage of expense of conducting business is based on the selling price. If you talk per cent of profit on cost and per cent of expense on the selling price, where are you?

[3] Adapted from the official publication, "The Expense Manual," of the Controllers' Congress of the National Retail Dry Goods Association.

3. Because mercantile and other taxes are invariably based on a percentage of the gross sales.

4. Because the sales totals are always given in books of record, cost totals are seldom, if ever, shown.

5. Because a profit must be provided for two items of capital—one, the capital invested in merchandise—the other, the capital necessary for operating expenses and other expenditures not properly chargeable to merchandise account. This is only possible by figuring profit on the selling price.

6. Because it indicates correctly the amount of gross or net profit when amount of sales is stated. The percentage of profits on sales is indicative of character of result of year's business—percentage of profit on cost is not.

7. Because allowances in percentage to customers are always from selling price.

8. Because no profit is made until sale is actually effected.

9. Because nine stores in ten which do not figure on the selling price get mixed somewhere in their figures, and do not know whether they are going forward or backward.

10. Because the big stores figure on the selling price.

11. Because it puts the retailer where a customer will not be so likely to call him a robber if he learns the percentage of profit. Twenty per cent of the selling price is 25 per cent on the cost, but the 20 per cent does not seem as large an amount.

12. Because if you figure on the selling price you can go to the cash drawer, and say "10 per cent of that money is my profit" instead of having to say that 10 per cent of the cost of the goods which I sold for that money is my profit.

**Typical Costs of Doing Business in American Retail Stores.**—A great deal of information has been gathered by various research and business organizations on the expenses of doing business in retail stores. Most of such reports have classified expenses according to natural divisions. In the accompanying table, Table 3, there are summarized the expenses in percentage of net sales for the principal lines of retail business. The table shows the total expenses grouped for three classes of store—high, medium, and low expense stores.

The high and low expense rates should not be interpreted as the extremes but rather as high and low averages as presented



TABLE 3. TOTAL AND PRINCIPAL ITEMS OF OPERATING EXPENSES IN VARIOUS KINDS OF RETAIL STORES

(In Percentage of Net Sales)

| KINDS OF BUSINESS | TOTAL EXPENSE | | | SALARIES, ETC. | | | RENTALS | | | ADVERTISING | | | ALL OTHER ITEMS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | High | Med. | Low | High | Med. | Low | High | Med. | Low | High | Med. | Low | High | Med. | Low |
| | % | % | % | % | % | % | % | % | % | % | % | % | % | % | % |
| Grocery stores (a, b, c) | 19.9 | 17.4 | 14.9 | 11.8 | 10.7 | 9.3 | 2.4 | 1.5 | 1.0 | 0.5 | 0.3 | 0.1 | 5.2 | 4.9 | 4.5 |
| Meat markets (d) | 28.5 | 20.5 | 17.5 | 19.5 | 13.2 | 8.5 | 4.3 | 2.2 | 0.8 | | | | 4.7 | 5.1 | 8.1 |
| Shoe stores (e) | 32.0 | 27.4 | 25.5 | 16.6 | 14.2 | 13.0 | 4.0 | 3.5 | 2.6 | 3.8 | 2.2 | 1.5 | 7.0 | 7.0 | 7.6 |
| Hardware stores (f) | 34.2 | 25.5 | 16.8 | 19.4 | 13.0 | 9.8 | 4.4 | 3.5 | 3.1 | 1.3 | 0.7 | 0.3 | 4.5 | 7.8 | 7.7 |
| Drug stores (g) | 29.1 | 27.5 | 25.5 | 19.5 | 17.4 | 15.1 | 4.0 | 3.0 | 2.1 | 4.2 | 3.4 | 2.4 | 13.0 | 13.4 | 7.3 |
| Jewelry stores (h) | 41.2 | 39.0 | 36.2 | 16.5 | 17.8 | 17.0 | 6.0 | 5.0 | 4.2 | 3.5 | | 2.5 | 15.0 | | 14.5 |
| Furniture stores (i) | 46.5 | | 28.0 | 18.5 | 11.6 | 6.7 | 1.2 | 0.1 | 0.0 | 1.7 | 0.7 | 0.2 | 5.1 | 5.1 | 8.0 |
| Auto tire stores (j) | 25.7 | 17.6 | 10.5 | 13.1 | 8.1 | 4.1 | 3.7 | 2.8 | 2.0 | 1.0 | 1.0 | 0.0 | 7.9 | 7.0 | 2.0 |
| Auto tire accessory stores (j) | 25.7 | 23.3 | 20.9 | 13.1 | 12.5 | 11.8 | 3.7 | 2.8 | 2.0 | 1.0 | 1.0 | 0.0 | 7.9 | 7.0 | 6.2 |
| Men's clothing stores (k, l, m, n) | 33.1 | 29.6 | 20.4 | 14.8 | 13.0 | 11.9 | 4.7 | 3.5 | 2.2 | 4.8 | 3.7 | 1.9 | 8.8 | 9.4 | 4.4 |
| Women's apparel shops (o) | 33.6 | 31.3 | 29.0 | 17.0 | 15.5 | 14.1 | 6.9 | 4.3 | 2.3 | 4.7 | 3.8 | 2.6 | 5.0 | 7.7 | 10.0 |
| Millinery shops (p) | 45.0 | 30.4 | 21.0 | | 18.7 | | | 3.9 | | | 2.2 | | | 5.6 | |
| Department stores (o) | | | | | | | | | | | | | | | |
| Net sales over $1,000,000 | 33.4 | 31.4 | 29.2 | 17.6 | 16.4 | 15.0 | 4.1 | 3.4 | 2.7 | 3.9 | 3.3 | 2.7 | 7.8 | 8.3 | 8.8 |
| Net sales under $1,000,000 | 32.2 | 29.5 | 26.0 | 17.6 | 15.9 | 13.8 | 3.6 | 2.8 | 2.0 | 3.0 | 2.3 | 1.5 | 8.0 | 8.5 | 8.7 |

a. Operating Expenses in Retail Grocery Stores in 1924. Bulletin No. 52. Bureau of Business Research, Harvard University Press, 1924.

b. Operating Expenses of Retail Grocery Stores in Colorado, 1923. University of Colorado, Business Bulletin No. 1, March, 1925.

c. Operating Expenses of Retail Grocery Stores in Nebraska, 1927. Nebraska Studies in Business, No. 22. University of Nebraska, September, 1928.

d. U. S. Dept. of Agriculture Bulletin No. 1442, Margins, Expenses, and Profits in Retailing Meat, pp. 14, 15.

e. Operating Expenses in Shoe Stores in 1923. Bulletin No. 43, Bureau of Business Research, Harvard University Press, 1924.

f. Hardware Store Survey, 1928 edition. National Retail Hardware Association.

g. How Much Does It Cost to Run a Drug Store? Bulletin No. 2, Druggists' Research Bureau.

h. Operating Expenses of Retail Jewelry Stores in 1927. Bulletin No. 76, Bureau of Business Research, Harvard University Press.

i. Expenses of Doing Business. National Distribution Conference, Chamber of Commerce of the United States, Washington.

j. Operating Expenses in the Retail Automobile Tire and Accessory Business, 1923. Bulletin No. 48, Bureau of Business Research, Harvard University Press, 1924.

k. Retailers' Expenses. Domestic Distribution Department, Chamber of Commerce of the United States, Washington.

l. Adapted from Studies of University of Colorado. Bureau of Business Research, "Operating Expenses of Retail Clothing Stores in Colorado," 1927, Bulletin No. 16.

m. From *National Retail Clothier*, March 22, 1928. Figures for 1927.

n. National Association Retail Clothiers and Furnishers (copyrighted 1926).

o. Operating Expenses of Department Stores and Departmentized Specialty Stores in 1927. Bulletin No. 74, Bureau of Business Research, Harvard University Press. Figures for 1927.

p. From R. B. Schreffler, Interstate Merchants' Council, Chicago Association of Commerce, 1924.

q. Operating Expenses of Retail Lumber Yards in Colorado, 1926. Business Bulletin No. 17. Prepared by Bureau of Business and Government Research, University of Colorado.

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in a report of studies of the costs of doing business in retail stores. Thus there are individual grocery stores in which the expense of doing business is considerably higher than 19.9% and there are likewise individual retail grocery stores in which the expense is considerably lower than 14.9%. The former percentage, 19.9%, merely represents a high average and the latter, 14.9%, is a low average for independent, individual grocery stores. The medium rate of expense may be taken as a fair average of expense and the most typical rate of expense occurring in these lines of business.

In this tabulation no attempt has been made to distinguish among retail concerns, even within any particular kind of business, as to the types of services rendered. Under grocery stores are included not only stores carrying charge accounts and making full and frequent deliveries, but also cash and carry stores and even stores in which the customer is expected to wait upon herself, as in the Piggly Wiggly stores. The omission of the consideration of the degree of service rendered by the various stores is a serious defect, but account of these differences in services will appear in some of the detailed tables for various classes of business appearing later on. The figures in Table 3 should be considered, obviously, as general estimates for entire lines of business.

There follow detailed tables showing the operating expenses in retail stores:

Table 4, "Operating Expenses of Meat Markets in 1923." Stores are classified not only by volume of sales but also by types of services.

Table 5, "Operating Expenses of Grocery Stores in 1924," including stores with varying amounts of sales from less than $30,000 up to $250,000 and over per year.

Table 6, "Operating Expenses of Retail Shoe Stores in 1923."

Table 7, "Operating Expenses in Retail Hardware Stores in 1927." The stores are classified not only by volume but also by size of towns in which the stores are located.



TABLE 4. OPERATING EXPENSES OF RETAIL MEAT MARKETS IN 1923[4]

(In Percentage of Net Sales)

| Class of Service and Annual Volumes of Sales | Number of Stores | Total Expense | Salaries and Wages | Rent | Wrappings | Refrigeration | Light and Power | Depreciation | Other Expense | Delivery (Including Wages) | Profit |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | % | % | % | % | % | % | % | % | % | % |
| Carry Stores | | | | | | | | | | | |
| $14,000–$ 25,000 | 8 | 20.23 | 13.91 | 2.11 | 1.01 | 1.36 | 0.35 | 0.42 | 1.07 | | 1.03 |
| $25,001–$ 50,000 | 17 | 19.83 | 12.44 | 2.62 | 1.12 | 1.17 | 0.29 | 0.50 | 1.69 | | 4.21 |
| $50,001–$100,000 | 8 | 19.44 | 12.67 | 2.48 | 1.04 | 0.94 | 0.29 | 0.34 | 1.68 | | 1.97 |
| Over $100,000 | 5 | 19.12 | 11.34 | 2.85 | 1.15 | 0.81 | 0.24 | 0.62 | 2.11 | | 4.09 |
| All Carry Stores | 38 | 19.74 | 12.66 | 2.51 | 1.08 | 1.12 | 0.30 | 0.46 | 1.61 | | 3.24 |
| Limited Delivery Stores | | | | | | | | | | | |
| $14,000–$ 25,000 | 5 | 20.77 | 13.06 | 1.79 | 1.06 | 1.21 | 0.49 | 0.65 | 2.51 | 2.62 | – 0.84 |
| $25,001–$ 50,000 | 12 | 20.53 | 13.44 | 2.27 | 1.04 | 0.91 | 0.34 | 0.44 | 2.09 | 1.07 | 2.43 |
| $50,001–$100,000 | 8 | 21.10 | 13.80 | 2.70 | 1.08 | 0.93 | 0.30 | 0.38 | 2.00 | 0.49 | 2.87 |
| Over $100,000 | 6 | 20.83 | 12.51 | 3.25 | 1.12 | 0.76 | 0.34 | 0.34 | 2.51 | 0.36 | 3.85 |
| All Limited Delivery Stores | 31 | 20.80 | 13.29 | 2.49 | 1.07 | 0.93 | 0.36 | 0.44 | 2.22 | 1.03 | 2.29 |
| Unlimited Delivery Stores | | | | | | | | | | | |
| $14,000–$ 25,000 | 5 | 27.25 | 16.58 | 3.22 | 1.05 | 2.05 | 0.38 | 0.68 | 3.29 | 5.16 | – 2.96 |
| $25,001–$ 50,000 | 19 | 21.49 | 14.07 | 1.77 | 0.83 | 0.87 | 0.43 | 0.33 | 3.20 | 3.41 | 4.56 |
| $50,001–$100,000 | 29 | 20.07 | 12.87 | 1.63 | 0.87 | 0.85 | 0.29 | 0.38 | 3.18 | 2.85 | 3.14 |
| Over $100,000 | 7 | 18.59 | 11.63 | 1.58 | 0.71 | 0.88 | 0.24 | 0.35 | 3.20 | 2.77 | 4.47 |
| All Unlimited Delivery Stores | 60 | 20.95 | 13.41 | 1.81 | 0.85 | 0.96 | 0.34 | 0.38 | 3.20 | 3.21 | 3.23 |
| All Individual Retail Stores | 129 | 20.55 | 13.16 | 2.18 | 0.97 | 1.00 | 0.33 | 0.42 | 2.49 | | 3.01 |

[4] From U. S. Dept. of Agriculture, Bulletin No. 1442, "Margins, Expenses and Profits in Retailing Meat."

TABLE 5. OPERATING EXPENSES OF RETAIL GROCERY STORES IN 1924[5]
(In Percentage of Net Sales)

| Items | All Stores Reporting | Less Than $30,000 | $30,000–$49,000 | $50,000–$99,000 | $100,000–$149,000 | $150,000–$249,000 | $250,000 and over |
|---|---|---|---|---|---|---|---|
| Number of stores | 545 | 55 | 110 | 205 | 72 | 59 | 44 |
| Typical sales volume | $73,000 | $21,000 | $41,000 | $65,000 | $115,000 | $180,000 | $400,000 |
| Total salaries and wages | 10.9% | 11.8% | 11.1% | 10.6% | 11.0% | 11.0% | 10.9% |
| Advertising | 0.35 | 0.25 | 0.3 | 0.3 | 0.45 | 0.4 | 0.5 |
| Boxes and wrappings | 0.6 | 0.45 | 0.5 | 0.6 | 0.65 | 0.7 | 0.6 |
| Delivery | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 | 1.3 | 1.0 |
| Office supplies and postage | 0.2 | 0.1 | 0.1 | 0.15 | 0.2 | 0.2 | 0.2 |
| Rent | 1.3 | 2.0 | 1.4 | 1.3 | 1.1 | 1.0 | 1.4 |
| Heat, light, and power | 0.3 | 0.4 | 0.35 | 0.3 | 0.3 | 0.3 | 0.3 |
| Taxes and licenses | 0.2 | 0.3 | 0.25 | 0.2 | 0.2 | 0.2 | 0.2 |
| Insurance | 0.2 | 0.2 | 0.15 | 0.2 | 0.2 | 0.2 | 0.2 |
| Repairs of store equipment | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 |
| Depreciation of store equipment | 0.35 | 0.35 | 0.35 | 0.3 | 0.35 | 0.4 | 0.3 |
| Total interest | 1.1 | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 | 0.8 |
| Miscellaneous expense | 0.8 | 0.95 | 0.6 | 0.7 | 0.75 | 0.95 | 0.95 |
| Losses from bad debts | 0.4 | 0.5 | 0.3 | 0.45 | 0.4 | 0.25 | 0.15 |
| Total expense | 18.0% | 19.9% | 17.9% | 17.5% | 18.0% | 18.2% | 17.6% |
| Gross margin | 19.8 | 20.9 | 19.3 | 19.3 | 20.6 | 20.9 | 19.3 |
| Net profit | 1.8 | 1.0 | 1.4 | 1.8 | 2.6 | 2.7 | 1.7 |
| Stock-turn (times a year) | 10.0 | 7.1 | 8.2 | 10.5 | 11.6 | 10.4 | 12.1 |

TABLE 6. OPERATING EXPENSES OF RETAIL SHOE STORES IN 1923[6]

| | |
|---|---|
| Number of stores | 499 |
| Total salaries and wages | 14.7% |
| Advertising | 2.2 |
| Boxes and wrappings | 0.2 |
| Delivery | 0.25 |
| Office supplies and postage | 0.4 |
| Rent | 3.5 |
| Heat, light, and power | 0.6 |
| Taxes | 0.5 |
| Insurance | 0.5 |
| Repairs of store equipment | 0.2 |
| Depreciation of store equipment | 0.4 |
| Total Interest | 2.7 |
| Miscellaneous expense | 1.0 |
| Losses from bad debts | 0.2 |
| Total expense | 27.4% |
| Gross margin | 29.1 |
| Net profit | 1.7 |
| Stock-turn (times a year) | 1.9 |

[5] Harvard Bureau of Business Research, Bulletin No. 52.
[6] *Ibid.*, No. 43, 1924.



TABLE 7. OPERATING EXPENSES IN RETAIL HARDWARE STORES IN 1927[7]
(In Percentage of Net Sales)

| Items | Towns Under 1,000 Population | | | | Towns of 1,000 to 3,500 Population | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than $25,000 | $25,000–$40,000 | $40,000–$60,000 | $60,000–$100,000 | Less than $25,000 | $25,000–$40,000 | $40,000–$60,000 | $60,000–$100,000 | $100,000 and over |
| | % | % | % | % | % | % | % | % | % |
| Salaries, management, buying | 2.02 | 2.02 | 1.49 | 1.51 | 2.32 | 2.33 | 2.09 | 1.70 | 1.72 |
| Salaries, selling | 9.97 | 7.65 | 7.00 | 6.17 | 11.23 | 9.30 | 7.94 | 6.92 | 6.71 |
| Salaries, office | 1.35 | 1.46 | 1.50 | 1.34 | 1.45 | 1.70 | 1.73 | 1.57 | 1.33 |
| Total salaries | 13.34 | 11.13 | 9.99 | 9.02 | 15.00 | 13.33 | 11.76 | 10.19 | 9.76 |
| Office supplies and postage | 0.28 | 0.25 | 0.26 | 0.27 | 0.30 | 0.33 | 0.31 | 0.29 | 0.31 |
| Advertising | 0.60 | 0.53 | 0.52 | 0.56 | 0.98 | 0.94 | 0.83 | 0.68 | 0.63 |
| Donations | 0.14 | 0.11 | 0.08 | 0.05 | 0.20 | 0.14 | 0.11 | 0.09 | 0.05 |
| Store supplies | 0.17 | 0.15 | 0.11 | 0.10 | 0.21 | 0.17 | 0.14 | 0.15 | 0.19 |
| Telephone and telegraph | 0.23 | 0.19 | 0.18 | 0.16 | 0.29 | 0.21 | 0.19 | 0.19 | 0.14 |
| Losses on notes and accounts | 0.50 | 0.57 | 0.64 | 0.66 | 0.45 | 0.57 | 0.64 | 0.73 | 0.70 |
| Delivery expense | 0.60 | 0.80 | 0.95 | 1.07 | 0.72 | 0.91 | 1.06 | 1.18 | 1.14 |
| Depreciation delivery equipment | 0.27 | 0.35 | 0.25 | 0.32 | 0.64 | 0.30 | 0.25 | 0.26 | 0.29 |
| Depreciation furniture, fixtures, tools | 0.54 | 0.45 | 0.34 | 0.25 | 0.64 | 0.51 | 0.35 | 0.34 | 0.23 |
| Rent | 2.67 | 2.19 | 1.87 | 1.80 | 3.63 | 2.75 | 2.56 | 2.16 | 1.61 |
| Repairs | 0.19 | 0.18 | 0.14 | 0.15 | 0.19 | 0.16 | 0.20 | 0.17 | 0.11 |
| Heat, light, water, power | 0.75 | 0.57 | 0.43 | 0.40 | 0.84 | 0.66 | 0.59 | 0.42 | 0.35 |
| Insurance | 0.54 | 0.52 | 0.49 | 0.41 | 0.58 | 0.59 | 0.46 | 0.48 | 0.38 |
| Taxes | 0.87 | 0.69 | 0.67 | 0.66 | 0.85 | 0.77 | 0.75 | 0.64 | 0.56 |
| Interest on borrowed money | 0.82 | 0.59 | 0.71 | 0.54 | 0.92 | 0.75 | 0.76 | 0.66 | 0.72 |
| Unclassified | 0.40 | 0.41 | 0.42 | 0.39 | 0.44 | 0.42 | 0.44 | 0.61 | 0.49 |
| Total expense | 22.91 | 19.68 | 18.05 | 16.81 | 26.70 | 23.51 | 21.31 | 19.18 | 17.66 |
| Gross margin | 25.03 | 22.85 | 21.31 | 20.82 | 27.07 | 25.75 | 24.19 | 22.45 | 20.60 |
| Earnings on sales | 2.12 | 3.17 | 3.46 | 4.01 | 0.37 | 2.24 | 2.79 | 3.27 | 2.94 |
| Cash discounts | 1.37 | 1.02 | 1.77 | 1.92 | 1.33 | 1.54 | 1.54 | 1.57 | 1.92 |
| Total earnings | 3.49 | 4.79 | 5.23 | 5.93 | 1.70 | 3.61 | 4.33 | 4.84 | 4.86 |

[7] *Hardware Store Survey* National Retail Hardware Association, Indianapolis, 1928.

TABLE 7 (*Continued*)

(In Percentage of Net Sales)

| ITEMS | TOWNS OF 3,500 TO 10,000 POPULATION | | | | | TOWNS OF 10,000 TO 50,000 POPULATION | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Less than $25,000 | $25,000–$40,000 | $40,000–$60,000 | $60,000–$100,000 | $100,000 and over | Less than $25,000 | $25,000–$40,000 | $40,000–$60,000 | $60,000–$100,000 | $100,000 and over |
| | % | % | % | % | % | % | % | % | % | % |
| Salaries, management, buying | 3.40 | 2.58 | 2.49 | 2.25 | 2.17 | 2.78 | 2.59 | 2.63 | 2.84 | 2.35 |
| Salaries, selling | 12.96 | 11.04 | 9.82 | 8.47 | 7.74 | 12.27 | 10.56 | 9.31 | 8.98 | 8.62 |
| Salaries, office | 2.74 | 2.11 | 2.01 | 1.69 | 1.88 | 1.72 | 2.13 | 2.21 | 1.93 | 2.07 |
| Total salaries | 19.10 | 15.73 | 14.32 | 12.41 | 11.79 | 16.77 | 15.28 | 14.15 | 13.75 | 13.04 |
| Office supplies and postage | 0.37 | 0.36 | 0.35 | 0.38 | 0.38 | 0.25 | 0.41 | 0.42 | 0.41 | 0.43 |
| Advertising | 1.27 | 1.20 | 1.16 | 1.08 | 1.06 | 0.86 | 1.26 | 1.32 | 1.19 | 1.06 |
| Donations | 0.19 | 0.25 | 0.12 | 0.12 | 0.07 | 0.21 | 0.17 | 0.14 | 0.14 | 0.09 |
| Store supplies | 0.22 | 0.19 | 0.15 | 0.17 | 0.12 | 0.23 | 0.25 | 0.23 | 0.19 | 0.20 |
| Telephone and telegraph | 0.31 | 0.23 | 0.20 | 0.17 | 0.19 | 0.42 | 0.27 | 0.21 | 0.20 | 0.18 |
| Losses on notes and accounts | 0.57 | 0.62 | 0.49 | 0.70 | 0.78 | 0.50 | 0.63 | 0.65 | 0.59 | 0.15 |
| Delivery expense | 1.11 | 1.12 | 1.18 | 1.39 | 1.54 | 1.57 | 1.68 | 2.20 | 1.92 | 1.52 |
| Depreciation delivery equipment | 0.66 | 0.25 | 0.22 | 0.22 | 0.25 | 0.38 | 0.27 | 0.25 | 0.26 | 0.25 |
| Depreciation furniture, fixtures, tools | 0.56 | 0.52 | 0.48 | 0.42 | 0.30 | 0.81 | 0.68 | 0.41 | 0.34 | 0.36 |
| Rent | 5.34 | 3.53 | 3.53 | 2.60 | 2.45 | 6.43 | 5.37 | 4.20 | 3.65 | 2.55 |
| Repairs | 0.23 | 0.14 | 0.13 | 0.17 | 0.12 | 0.44 | 0.05 | 0.18 | 0.09 | 0.10 |
| Heat, light, water, power | 0.76 | 0.71 | 0.56 | 0.52 | 0.38 | 0.82 | 0.69 | 0.61 | 0.59 | 0.44 |
| Insurance | 0.54 | 0.54 | 0.53 | 0.51 | 0.55 | 0.56 | 0.46 | 0.48 | 0.51 | 0.54 |
| Taxes | 0.84 | 0.87 | 0.75 | 0.67 | 0.65 | 0.60 | 0.82 | 0.63 | 0.69 | 0.58 |
| Interest on borrowed money | 1.34 | 0.68 | 0.57 | 0.53 | 0.44 | 0.35 | 0.42 | 0.65 | 0.56 | 0.52 |
| Unclassified | 0.47 | 0.42 | 0.41 | 0.40 | 0.74 | 0.46 | 0.46 | 0.64 | 0.58 | 0.84 |
| Total expense | 33.88 | 27.36 | 25.15 | 22.46 | 21.81 | 31.66 | 29.17 | 27.37 | 25.66 | 23.29 |
| Gross margin | 29.14 | 28.90 | 27.31 | 26.46 | 24.66 | 30.71 | 28.89 | 30.24 | 28.27 | 26.61 |
| Earnings on sales | 4.74 | 1.54 | 2.16 | 4.00 | 2.85 | 0.95 | 0.28 | 2.87 | 2.61 | 3.32 |
| Cash discounts | 1.28 | 1.38 | 1.32 | 1.43 | 1.78 | 0.92 | 1.14 | 1.18 | 1.30 | 1.30 |
| Total earnings | 3.46 | 2.92 | 3.48 | 5.43 | 4.63 | 0.03 | 0.86 | 4.05 | 3.91 | 4.62 |



TABLE 7 (*Continued*)

(In Percentage of Net Sales)

| ITEMS | TOWNS OF OVER 50,000 POPULATION | | | | |
|---|---|---|---|---|---|
| | Less than $25,000 | $25,000–$40,000 | $40,000–$60,000 | $60,000–$100,000 | $100,000 and over |
| | % | % | % | % | % |
| Salaries, management, buying | 3.48 | 3.14 | 2.60 | 2.56 | 2.51 |
| Salaries, selling | 13.95 | 10.19 | 9.03 | 9.65 | 9.48 |
| Salaries, office | 2.01 | 1.81 | 2.35 | 2.16 | 2.12 |
| Total salaries | 19.44 | 15.14 | 14.88 | 14.37 | 14.11 |
| Office supplies and postage | 0.25 | 0.31 | 0.42 | 0.40 | 0.43 |
| Advertising | 0.94 | 0.85 | 0.99 | 1.15 | 1.26 |
| Donations | 0.16 | 0.11 | 0.12 | 0.11 | 0.11 |
| Store supplies | 0.22 | 0.21 | 0.23 | 0.16 | 0.20 |
| Telephone and telegraph | 0.57 | 0.33 | 0.29 | 0.28 | 0.22 |
| Losses on notes and accounts | 0.44 | 0.49 | 0.72 | 0.70 | 0.62 |
| Delivery expense | 1.50 | 2.02 | 2.06 | 2.11 | 1.87 |
| Depreciation delivery equipment | 0.40 | 0.32 | 0.29 | 0.32 | 0.30 |
| Depreciation furniture, fixtures, tools | 0.73 | 0.61 | 0.46 | 0.52 | 0.31 |
| Rent | 6.21 | 4.90 | 3.64 | 4.21 | 3.45 |
| Repairs | 0.30 | 0.19 | 0.09 | 0.17 | 0.10 |
| Heat, light, water, power | 0.99 | 0.70 | 0.61 | 0.58 | 0.48 |
| Insurance | 0.55 | 0.52 | 0.69 | 0.61 | 0.53 |
| Taxes | 0.62 | 0.52 | 0.50 | 0.43 | 0.54 |
| Interest on borrowed money | 0.43 | 0.35 | 0.51 | 0.35 | 0.53 |
| Unclassified | 0.43 | 0.39 | 0.55 | 0.66 | 1.07 |
| Total expense | 34.18 | 27.96 | 27.05 | 27.13 | 26.13 |
| Gross margin | 31.74 | 31.06 | 29.59 | 29.78 | 27.12 |
| Earnings on sales | 2.44 | 3.10 | 2.54 | 2.65 | 0.99 |
| Cash discounts | 1.06 | 0.99 | 1.20 | 1.28 | 1.24 |
| Total earnings | 1.38 | 4.09 | 3.74 | 3.93 | 2.23 |

TABLE 8. OPERATING EXPENSES OF RETAIL DRUG STORES[8]
(In Percentage of Net Sales)

| Items | Stores in and near Philadelphia | St. Louis | Iowa, Minnesota, North and South Dakota | Colorado | Florida, Louisiana, Mississippi |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Cost of merchandise | 64.0 | 68.0 | 67.0 | 64.8 | 64.9 |
| Salaries | 19.5 | 17.8 | 15.8 | 17.6 | 16.4 |
| Rent | 4.0 | 3.8 | 3.4 | 3.8 | 3.1 |
| Light | 0.5 | 1.0 | 1.2 | 1.0 | 0.8 |
| Heat | 0.6 | | | | |
| Insurance | 0.2 | 0.5 | 0.5 | 0.4 | 1.4 |
| Taxes | 0.2 | 0.4 | 0.7 | 0.9 | |
| Interest on borrowed money | Negligible | | | 0.4 | |
| Losses on bad debts | Negligible | Negligible | | 0.3 | 0.4 |
| Repairs | 0.2 | 0.2 | | 0.3 | |
| Depreciation | 1.4 | 1.2 | 0.6 | 0.7 | 0.4 |
| Delivery | 0.1 | | | | |
| Advertising | 0.6 | 0.8 | 1.0 | 1.1 | 0.3 |
| Miscellaneous | 0.5 | 1.4 | 2.3 | 2.6 | 5.4 |
| Total expenses | 27.8 | 27.1 | 25.5 | 29.1 | 28.2 |
| Profit | 8.2 | 4.9 | 7.4 | 6.1 | 6.9 |
| Turnover of merchandise stock (times a year) | 2.6 | 3.6 | 2.2 | 2.8 | 3.3 |

Table 8, "Operating Expenses of Retail Drug Stores." These figures are for different years, compiled from studies made in four different sections of the country.

Table 9, "Operating Expenses of Retail Jewelry Stores in 1927." The stores are classified by sales volumes ranging from less than $20,000 to $500.000 and over.

Table 10, "Operating Expenses in Retail Furniture Stores." The stores are classified by high and low costs stores.

Table 11, "Operating Expenses of Retail Automobile Tire and Accessory Stores in 1923." The stores are classified by sales volumes into two classes, those under $75,000 and those over $75,000 per year.

Table 12, "Operating Expenses of Retail Clothing Stores." The stores are classified by sales volumes.

[8] Bulletin No. 2, Druggists' Research Bureau.



TABLE 9. OPERATING EXPENSES OF RETAIL JEWELRY STORES IN 1927[9]
(In Percentage of Net Sales)

| Items | All Firms Reporting | Less than $20,000 | $20,000–$49,000 | $50,000–$99,000 | $100,000–$499,000 | $500,000 and over |
|---|---|---|---|---|---|---|
| Number of firms | 230 | 49 | 69 | 40 | 53 | 19 |
| Typical Merchandise sales | $54,000 | $21,700 | $32,100 | $68,900 | $186,500 | $853,400 |
| Net cost of merchandise sold | 59.1% | 58.9% | 60.4% | 57.7% | 59.2% | 58.6% |
| Gross margin | 40.9 | 41.1 | 39.6 | 42.3 | 40.8 | 41.4 |
| Total salaries and wages | 17.8 | 17.3 | 18.5 | 17.7 | 17.3 | 17.1 |
| Advertising | 3.4 | 2.4 | 3.2 | 3.9 | 4.2 | 3.9 |
| Rent | 5.0 | 5.3 | 4.8 | 5.5 | 4.8 | 4.2 |
| Heat, light, power, and water | 0.85 | 1.1 | 1.0 | 0.9 | 0.6 | 0.5 |
| Taxes | 0.95 | 1.1 | 0.9 | 0.9 | 0.9 | 0.9 |
| Insurance | 0.8 | 0.7 | 0.9 | 0.8 | 0.9 | 0.8 |
| Repairs and depreciation | 0.9 | 0.9 | 1.0 | 1.1 | 0.8 | 0.7 |
| Losses from bad debts | 0.55 | 0.3 | 0.6 | 0.9 | 0.6 | 0.5 |
| Other expenses (exclusive of int.) | 3.85 | 2.8 | 3.6 | 4.2 | 4.1 | 5.3 |
| Total expense before interest | 34.1 | 31.9 | 34.5 | 35.9 | 34.2 | 33.9 |
| Total interest | 5.5 | 6.5 | 5.8 | 5.3 | 4.7 | 4.3 |
| Total expense | 39.6 | 38.4 | 40.3 | 41.2 | 38.9 | 38.2 |
| Net profit | 1.3 | 2.7 | *Loss* 0.7 | 1.1 | 1.9 | 3.2 |
| Stock-turn (times a year) | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 |

TABLE 10. OPERATING EXPENSES IN RETAIL FURNITURE STORES[10]
(In Percentage of Net Sales)

| Items | Low | High |
|---|---|---|
| Total salaries and wages | 12.0% | 16.0% |
| Advertising | 2.5 | 3.5 |
| Delivery | 1.5 | 2.5 |
| Supplies | 0.5 | 1.5 |
| Rent | 4.5 | 6.0 |
| Heat, light, and power | 0.5 | 1.5 |
| Taxes and insurance | 1.5 | 2.0 |
| Depreciation | 1.5 | 2.0 |
| Losses from bad debts | 1.0 | 2.0 |
| Unclassified | 1.5 | 3.5 |
| Total expense | 27.0 | 40.5 |

[9] Harvard Bureau of Business Research, Bulletin No. 76.
[10] "Expenses of Doing Business," Report of Committee IV, National Distribution Conference, Chamber of Commerce of the United States.

TABLE 11. OPERATING EXPENSES OF RETAIL AUTOMOBILE TIRE AND ACCESSORY STORES IN 1923[11]

(In Percentage of Net Sales. No Repairing Department.)

| Items | All Stores Reporting | Less Than $75,000 | $75,000 and Over |
|---|---|---|---|
| Number of firms | 88 | 44 | 44 |
| Total salaries and wages | 12.5% | 13.1% | 11.8% |
| Advertising | 1.0 | 0.9 | 1.0 |
| Delivery | 0.8 | 0.9 | 0.7 |
| Office supplies and postage | 0.4 | 0.4 | 0.4 |
| Telephone and telegraph | 0.3 | 0.4 | 0.3 |
| Rent | 2.8 | 3.7 | 2.0 |
| Heat, light, and power | 0.4 | 0.5 | 0.3 |
| Taxes | 0.2 | 0.4 | 0.1 |
| Insurance | 0.5 | 0.6 | 0.4 |
| Repairs of store equipment | 0.2 | 0.2 | 0.1 |
| Depreciation of store equipment | 0.4 | 0.5 | 0.3 |
| Total interest | 1.5 | 1.7 | 1.3 |
| Miscellaneous expense | 1.6 | 1.6 | 1.6 |
| Losses from bad debts | 0.7 | 0.8 | 0.6 |
| Total expense | 23.3 | 25.7 | 20.9 |
| Gross margin | 24.4 | 25.6 | 23.1 |
| Net profit or loss | *Loss* 1.1 | 0.1 | 2.2 |
| Stock-turn (times a year) | 4.5 | 3.2 | 5.9 |

Table 13, "Operating Expenses of Retail Lumber Yards in Colorado and Wyoming in 1926." The outlets are classified by sales volumes under $100,000 and under $100,00 per year.

Table 14, "Operating Expenses of Retail Coal Dealers, 1919."

Table 15, "Operating Expenses of Department Stores and Women's Apparel Specialty Shops in 1928." The stores are in each case classified by sales less than a million and over one million dollars.

Table 16, "Operating Expenses of Retail Millinery Stores in 1923."

**Statistics of Operating Expenses Are Merely Averages.** —Statistics of operating expenses as presented in the fore-

[11] Harvard Bureau of Business Research, Bulletin No. 48, 1924.



TABLE 12. OPERATING EXPENSES OF RETAIL CLOTHING STORES[12]

(In Percentage of Net Sales)

| Items | Under $100,000 | $100,000 to $200,000 | $200,000 to $500,000 | $500,000 to $1,000,000 | Over $1,000,000 |
|---|---|---|---|---|---|
| Total expense | 31.6% | 31.7% | 32.0% | 33.1% | 32.7% |
| Total salaries | 13.9 | 13.4 | 13.5 | 13.3 | 12.9 |
| Advertising | 3.6 | 3.9 | 3.4 | 4.0 | 4.0 |
| Busheling | 2.7 | 2.2 | 2.6 | 2.7 | 2.6 |
| Taxes | 0.8 | 0.8 | 0.6 | 0.4 | 0.7 |
| Insurance | 0.4 | 0.6 | 0.6 | 0.4 | 0.8 |
| Freight | 1.0 | 1.3 | 1.1 | 1.9 | 1.7 |
| Rent | 3.4 | 3.4 | 4.1 | 4.1 | 4.7 |
| General | 4.2 | 3.5 | 3.6 | 3.8 | 3.0 |
| Reserve | 1.6 | 2.6 | 2.5 | 2.5 | 2.3 |

TABLE 13. OPERATING EXPENSES OF RETAIL LUMBER YARDS IN COLORADO AND WYOMING IN 1926[13]

(In Percentage of Net Sales)

| Items | Annual Sales Over $100,000 | Annual Sales Under $100,000 |
|---|---|---|
| Total salaries and wages | 12.2 % | 10.8 % |
| Office supplies | 0.35 | 0.2 |
| Telephone and telegraph | 0.15 | 0.15 |
| Traveling | 0.1 | |
| Delivery | 1.1 | 0.6 |
| Advertising | 0.7 | 0.55 |
| Insurance | 0.4 | 0.35 |
| Taxes | 0.95 | 1.45 |
| Rent | 0.35 | |
| Heat, light, and water | 0.15 | 0.25 |
| Repairs and depreciation | 1.3 | 1.1 |
| Dues, subscriptions, and contributions | 0.3 | 0.15 |
| Unclassified | 0.6 | 0.85 |
| Total operating expense | 18.65 | 16.45 |
| Profit | 5.55% | 6.5 % |
| Stock-turn (times a year) | 3.2 | 3.3 |

[12] National Retail Clothiers and Furnishers Association, Trends and Indications, June 9, 1928. Published by Dorrance & Sullivan.

[13] Bureau of Business and Government Research, University of Colorado, December, 1927.

TABLE 14. OPERATING EXPENSES OF RETAIL COAL DEALERS IN 1919[14]

(In Percentage of Net Sales)

| | |
|---|---|
| Cost of coal | 68.194% |
| Overhead | 11.397 |
| Delivery | 13.983 |
| Unloading | 2.198 |
| Yard expenses | 0.762 |
| Losses | 0.596 |
| Total expense | 28.936 |
| Net profit | 2.855 |

going tables are merely averages of the costs of doing business within the groups of stores studied, but even the accurately determined statistics of the expenses of doing business in an individual store are only averages of the costs of doing business on the individual lines carried within that store.

To illustrate, in a grocery store in which the operating expenses amount to 18% of sales this expense covers the cost of handling and selling all commodities carried by the store ranging from such items as spices and condiments, upon which it may be presumed that the operating expenses, if classified by lines of merchandise, would show high operating expenses, down to such commodities as sugar, potatoes, and flour on which the operating costs are undoubtedly low. An 18% operating expense may, in truth, be an average of operating expenses ranging from as high as 40% on spices down to 10% or even less on the sale of certain staple commodities.

**Merchandise Unit Costs the Ultimate Aim of Retail Expense Accounting.**—Operating costs in any retail store, if they are to be exact and specific, as well as most helpful, must be broken down into finer divisions than appear in the general store totals in which they are now usually presented. The next step, quite logically, would be to secure accurate departmental costs or, better still, detailed costs for individual merchandise lines within departments. The ultimate but perhaps

[14] From a survey made by the University of Washington in the city of Seattle, published in 1920.



TABLE 15. OPERATING EXPENSES OF DEPARTMENT STORES AND DEPARTMENTIZED SPECIALTY STORES IN 1928[15]

(In Percentage of Net Sales)

| ITEMS | DEPARTMENT STORES | | SPECIALTY STORES | |
|---|---|---|---|---|
| | Net Sales less than $1,000,000 | Net Sales over $1,000,000 | Net Sales less than $1,000,000 | Net Sales over $1,000,000 |
| Number of firms | 251 | 162 | 36 | 28 |
| Aggregate sales | $86,520,866 | $1,014,194,467 | $14,779,030 | $156,865,993 |
| Typical net sales | 285,000 | 3,300,000 | 400,000 | 3,250,000 |
| Total merchandise costs | 70.4% | 66.8% | 67.2% | 64.7% |
| Gross margin | 29.6 | 33.2 | 32.8 | 35.3 |
| Total salaries and wages | 16.1 | 16.5 | 15.5 | 16.1 |
| Rentals | 3.0 | 3.7 | 4.8 | 3.85 |
| Advertising | 2.4 | 3.2 | 3.4 | 3.85 |
| Taxes | 0.7 | 0.45 | 0.35 | 0.4 |
| Interest | 2.7 | 2.1 | 2.1 | 1.8 |
| Supplies | 0.85 | 1.5 | 1.0 | 1.5 |
| Service purchased | 0.85 | 0.65 | 0.85 | 0.65 |
| Unclassified | 0.8 | 1.0 | 0.8 | 1.05 |
| Traveling | 0.4 | 0.45 | 0.7 | 0.65 |
| Communication | 0.3 | 0.35 | 0.4 | 0.35 |
| Repairs | 0.15 | 0.25 | 0.2 | 0.25 |
| Insurance | 0.5 | 0.3 | 0.5 | 0.4 |
| Depreciation: | | | | |
| Losses from bad debts | 0.3 | 0.25 | 0.35 | 0.35 |
| Other depreciation | 0.65 | 0.8 | 0.7 | 0.8 |
| Professional services | 0.1 | 0.2 | 0.25 | 0.3 |
| Total expense | 29.8 | 31.7 | 31.9 | 32.3 |
| Net profit | *Loss* 0.2 | 1.5 | 0.9 | 3.0 |
| Total net gain: | | | | |
| Percentage of net sales | 2.7 | 4.5 | 2.8 | 5.8 |
| Percentage of net worth | 6.4 | 9.7 | 8.9 | 15.5 |
| Rate of stock-turn (times a year): | | | | |
| Based on beginning and ending inventories | 2.5 | 3.9 | 3.9 | 5.9 |
| Based on monthly inventories | 2.2 | 3.3 | 4.0 | 4.6 |

impractical ideal of cost accounting in retail stores is to have the operating costs for every item handled, in other words, unit costs. This ideal may be impracticable for the reason that the expense that would be incurred in obtaining records of the expenses of selling every item handled would probably,

[15] From Bulletin No. 78, Harvard Bureau of Business Research, May, 1929.

TABLE 16. OPERATING EXPENSES OF RETAIL MILLINERY STORES IN 1923[16]

(In Percentage of Net Sales)

| Items | |
|---|---|
| Salaries | 18.7% |
| Advertising | 2.2 |
| Freight and express | 1.0 |
| Rent | 3.9 |
| Light and heat | 1.5 |
| Taxes | 0.4 |
| Insurance | 0.6 |
| All other expenses | 2.1 |
| Total expenses | 30.4% |

in most cases, outweigh the advantages to be gained from the information.

It must be clear to all that there are differences in operating expenses not only from one department to another and from one merchandise line to another, but also from one item to another. Let us assume that on a purchase of one dozen sport caps in a men's furnishing store, the first three are sold within a week, the next three sold within a month, the next three sold within three months, the next two sold within six months and the last one sold at the end of ten months. On the first three sold there would be but very little accumulation of the store's fixed expenses such as rent, interest, insurance, taxes, depreciation, and so on. On the next three sold, it might be safely assumed, that the amount of sales effort and other direct expenses would also be relatively slight, but on the other caps remaining unsold for longer and longer periods there would be increasing accumulations of expense. Probably the total expense, if properly charged to the last cap sold, would be twice or even three times as great as the expense incurred on the sale of the first cap. On an average operating expense of 25% on the entire lot it is quite conceivable that the total

[16] From R. B. Schriffler, Interstate Merchants Council, Chicago Association of Commerce, 1924.



expense properly chargeable to the first cap might be as low as 15% of its sales value, whereas on the last cap sold it might be well over 50% of its sales value.

Detailed cost accounting by items is possible on merchandise of high unit value. An expensive rug, a fur coat, or a diamond ring in the stock of a retail store may well bear the cost of the accounting necessary to determine the total expense of handling and selling. On merchandise of low unit value, however, no methods have so far been devised which make item cost accounting practicable. In such cases it is necessary to group the items and compute the expenses as averages.

**Accounting Proof of the Variations in Sales Expenses by Lines.**—A recent study reported by the Domestic Commerce Division of the U. S. Department of Commerce, "Analyzing Retail Selling Time," presents splendid corroboration of the point that expenses of selling vary from line to line.[17] This report presents the facts concerning the variations in expenses for salaries and wages of salespersons in a private retail organization with stores in New York, Chicago, Philadelphia, and Boston. The expenses for salaries and wages of salespersons in this study were painstakingly charged against each line of goods sold for a certain period in 1925 and a corresponding period in 1927. The grand total of sales expenses in this organization in 1927 was found to be $.10 per $1 of sales. The lines of goods handled by this organization were classified into 14 kinds with a fifteenth or miscellaneous group to cover "all others."

While the total average sales expense amounted to $.10 per $1 of sales the actual sales expense charged against each line varied from $.034 to $.162 per $1.60 of sales, that is, the cost of selling, for salaries and wages of salespersons alone, amounted to almost five times as much in one line of goods as it did in the lowest cost line.

[17] G. E. Bittner, "Analyzing Retail Selling Time," Domestic Commerce Division, U. S. Department of Commerce, Distribution Cost Studies No. 2, 1928.

Out of the 14 lines for which sales expenses were definitely compiled, 7 lines bore an expense below and 7 bore an expense above the average of $.10 per $1 of sales. The average expense of selling for the low 7 items amounted to only $.052 per $1 of sales while the average expense of selling the 7 high items amounted to $.13 per $1 of sales. Thus, if all other conditions remained the same, if the business could be conducted on lines such as the first 7, the total expense of selling would be almost 8% less than on the other 7 lines, and only about half of the actual expense on the full lines carried at the time of the test.

No account in this study was taken of differences in selling expense due to rent, advertising, taxes, interest, insurance, and other overhead items. It may be safely presumed that the variations in overhead expense among the different lines of goods carried in a store are as great as the variations in expense for salaries and wages.

A study, such as the foregoing, reported by the U. S. Department of Commerce, may be considered an indication of the trends of thought in retail expense accounting. It may be presumed that careful analyses of the costs of selling will be made both by lines and by items with increasing frequency as well as thoroughness in the future. It seems doubtful if detailed unit cost accounting can ever be directly applied to items or even to lines of merchandise of low price units, but that accounting methods will be devised to apply to an increasing number of kinds and values of merchandise is a foregone conclusion.

There is already a wide and growing recognition of the fact that the expenses of selling vary with every item in accordance with the amount of sales time and effort required to sell it, the length of time it is carried in stock and the amount of advertising and display efforts applied. The knowledge of these facts has in turn produced almost revolutionary effects on retail merchandising methods. This knowledge has helped



to determine and fix the character of hand-to-mouth buying. It has caused careful considerations and reconsiderations of the kind and extent of consumer demand both as to types of goods wanted and prices which will be paid. It has been an important factor in determining the lower limits of markup to be applied to goods handled.

With knowledge of the fact that costs of selling mount rapidly with time, the retail buyer will hesitate in buying large quantities of goods that will require a long time to sell out, even at special discounts. The additional costs accumulated on the last items before they are finally sold may well consume not only the entire regular margins but the special discounts as well.

A careful computation of detailed operating costs made by a buyer of a small wares section in a large department store showed him that it was more profitable to buy and sell for monthly turnover than to buy the same goods in larger quantities requiring five months for resale even at a special discount of 10%. The accumulated expenses on these goods bought in large lots, at the end of five months amounted to more than the 10% special discount.

Similarly, the retailer with an average operating expense of 25% of sales may well hesitate to add an item to his line, even with a prospective gross margin of 40% or 50% if its sale is likely to prove slow or expensive. On the other hand, the item that yields but 15% to 18% gross margin may not necessarily be unprofitable, if its turnover is sufficiently high and its actual selling expenses very low. *It isn't the amount of the gross margin that counts. It is what is left after all expenses of handling and selling have been met.*

**Trends in Retail Store Expenses.**—An examination of the operating expenses of retail stores such as presented in the foregoing tables and in the studies made from year to year by bureaus of business research and trade associations quoted,

indicates certain very important trends in retail operating expenses. They are as follows:

1. In retail stores of various sizes but selling the same kinds of merchandise and offering about the same types of service, expenses decline slightly on passing from smaller to larger stores. This tendency is not notable in all lines of retailing and there are some lines in which the opposite tendency prevails. Among grocery stores there is little or no notable change in the percentages of operating expenses on passing from smaller to larger stores.

Among meat markets, hardware stores, tire and auto accessory stores, and women's specialty shops, there are declines in the per cent of total expense as sales increase. However, among lumber retailers and department stores the percentage of expense shows a decided tendency to increase as sales increase.

From common observation of the retail business it appears that a certain additional volume of sales usually results in some decline in expenses of doing business, but a further increase of sales volume also usually brings about a necessity for further increases in expenses. The relation of operating expense to sales volume may perhaps be best described by two curves or graphs in which sales volume is represented by a smoothly rising curve, while operating expense is represented by a graph which also rises in about the same proportion but by a series of steps made up of alternate abrupt rises and flat or even declining plateaus.

Quite contrary to generally held popular views on the subject, there appears to be no important possibility of reducing retail operating expenses by increasing the sales volume. Operating expenses apparently have a way of increasing in about the same proportion as sales.

2. The statistics collected by the National Retail Hardware Association and presented in a foregoing table indicate very clearly that operating expenses tend to rise on passing from smaller towns to larger cities. Although there are no statistics



on this subject for other retail stores presented in the tables, it may be stated from common observation that this trend is probably generally true for all kinds of retail business. Almost all expenses show tendencies to increase on passing from smaller to larger towns.

3. Similarly, it appears that operating expenses also tend to increase on passing from stores in neighborhood centers to central locations within the same cities and for the same reasons as indicated in the case of comparisons of stores in small and large cities.

4. For a number of years business men have noted that operating expenses in retail stores in the Far West have generally been somewhat higher than the operating expenses in the Middle West, but the operating expenses in all cases seem to be higher in the metropolitan centers regardless of geographical locations.

5. Operating expenses tend to be higher in well-to-do commercial and industrial centers than in communities serving agricultural, mining, or less prosperous industrial areas.

6. Retail operating expenses have been rising over a period of many years in almost all classes of retail stores. In department stores, among those stores selling about the same types of goods and rendering about the same services, expenses have risen from about 20% in the '90's to 25% in 1910, and to 30% in 1929. Similar increases have occurred in other lines of retail merchandising as well.

The rising trend in percentages of operating expenses in department stores has been clearly brought out by the studies made by the Harvard Bureau of Business Research, whose reports on department stores have been made annually since 1921. With slight deviations, the percentages of operating expenses have risen from less than 28% of sales in 1921 to 29½% for stores with sales under a million, and to more than 31% for stores with sales over a million dollars a year.

Nor is the end of this trend of increasing retail expenses yet in sight. During the past generation, intensive competition on the one hand and highly intensive efforts on the other, have forced the adoption of every possible improvement for the purpose of cutting expenses. Had such improvements not been made it seems possible that the increase in expenses might have been considerably higher than they actually were.

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No. 21. Operating Expenses in Retail Hardware Stores in 1919.

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# CHAPTER V

## RETAIL STORE LOCATION

Some unknown person has said, "If a man makes even a mouse trap better than any one else, though he build his hut in the woods, the world will make a beaten track to his door." Although widely quoted and having the ring of wisdom, as a business maxim the saying has very little if any value. There is now scarcely any article of commerce so fine in quality, and so much wanted, as to tempt the masses of buyers a single step from the regular channels of trade without a good deal of coaxing. The maker of the "better mouse trap" would find it much more to his profit to "build his hut" by the side of the well-traveled road, and, if he knew his practical economics, to select his exact location by a wayside leading to homes troubled with mice. Furthermore, he would very wisely supplement the advantages of his location with an attractive window display.

**Good Location Is Fundamental.**—In no branch of business is location more important than in retailing. The oldest books on trade, as well as the most recent literature, emphasize this point. Shopkeepers and traders have always congregated in certain locations in populous communities. Where legal ordinances have not interfered, it is likely that these locations have always been the points at which the greatest possible amount of retail business could be transacted.

Every merchant of experience knows something of the comparative value of retail sites. The buyer of a store considers the value of the location first of all. The credit manager of the wholesale house inquires concerning the location of the store whose owner seeks his department's O.K. Failure





statistics show that many bankruptcies are due directly to poor location. If figures could be given showing the number of cases in which a bad location was a contributing cause to failure, there is no doubt that it would rank extremely high. Any study of retailing must take location into consideration.

**The Value of a Location Depends Upon Its Profit Possibilities.**—The value of a retail store location is determined solely by its profit-making possibilities. These depend upon the possibilities of making sales. There can be no profits without sales, but there can be sales without profits. The sales of some goods, such as exclusive lines, art objects, fashion goods, and novelties, yield a high profit in proportion to sales. Other goods, such as staples of everyday mass use, generally yield but a low profit in proportion to the sales. Thus, small sales with high profits may in some cases be fully as profitable as large sales with low profits. In any case, the profit is the important consideration. A good location is one that permits the retailer to make a good profit either from small sales with large margins, or from larger sales with smaller margins of profit.

The customary method of expressing the rent that a store pays as a percentage of the sales of the store, is, therefore, imperfect as a basis of comparison with other stores, unless one also knows what gross profit is made on the sales. Of the two items, profit is by far the more important with which to compare the outlay for rent.

**Accessibility to the Public.**—The possibility of making sales depends upon accessibility to the purchasing public. Other things being equal, the greater the number of people who live near, who come to, or who pass by a certain location, the more valuable that location is. Every retailer who knows his business recognizes this. The president of the Woolworth 5 and 10 cent stores company, years ago expressed this idea exactly

when he said, "I set my traps where the mice are thickest." Store managers, particularly the managers of certain chain store systems, on seeking out new locations for stores, first determine the number of people who pass the proposed locations, actually counting them for certain periods of time, often for weeks, so as to get accurate data. If other conditions are equal, preference is given to those places that show the highest counts.

The merchant who locates at the point that is in every way most accessible for customers has the best chance to succeed. This well-known fact accounts for the location of the cross-roads store in the country, the corner store in the village, the neighborhood store in the residence section of the city, and the "downtown" or "uptown" store in the center of the city.

**The Neighborhood Store.**—The neighborhood store aims to get as close to the homes of the prospective customers as possible, so that it will be easy for them to come to the store or to send their children or servants for goods, and so that deliveries can be made quickly. But neighborhood stores must as a rule content themselves with handling only such lines of goods as are of standard quality, of more or less uniform prices, and of daily necessity in the surrounding homes—such as groceries, meats, baked goods, and dairy products; drugs, notions, the common articles of toilet use, household hardware, and so on. Such goods are often called "convenience goods." Another evident restriction on a neighborhood store is its limited area of trade. Hardly ever does trade for such a store come farther than a few blocks. Beyond this radius the influence of competing neighborhood stores, or the attraction of the stores in the center of the city overpowers the trade possibilities of the neighborhood stores. There are, here and there, neighborhood store managers who are able to push their trade beyond these natural limits, but such cases are exceptional. The amount of neighborhood trade depends, therefore, upon the population of the immediate vicinity, and rent for such locations depends upon the amount of trade.



Stores in rich, fashionable neighborhoods are able to command higher sales and higher profits in proportion to sales than stores in poorer neighborhoods, and the proportion of rent to sales varies accordingly. A grocery store in one of the best residence districts of a middle-western city of 350,000 people, pays a rent of nearly 3% on its sales, while another neighborhood grocery in another section of the same city occupied by wage-earners, a store doing approximately the same volume of business as the other, pays slightly less than 2% of its sales for rent. While the sales are about the same in both cases, the first merchant is slightly better off. The lines of goods he handles make a much better profit per dollar of sales than do those handled by the second store. The profits from his location are considerably higher, hence he is able to pay a higher percentage for rent but still makes more money than the second.

**The Centrally Located Store.**—The centrally located store, as the term expresses, is placed where the most people naturally come together, whether it be at a country crossroads, the place of intersection of principal streets in a city, or at the intersection of street car or other transportation lines. It is a matter of dispute as to whether a retail store away from the traveled streets can be conducted so well as to draw a profitable and permanent trade to itself, but it is a well-recognized fact that most merchants do not court the difficulties of such an attempt. The competition is usually keenest for the location which is passed by the greatest number of people.

**Importance of Numbers of People.**—The central location not only serves the same purpose in supplying convenience goods to the nearby people as does the neighborhood store, but also supplies the opportunity for the establishment of retail institutions handling goods in which consumers choice is highly

important such as in wearing apparel, millinery, shoes, and home furnishings of all kinds, in which price, pattern, quality, and particularly fashion are important considerations. Such goods are usually not purchased without careful consideration and often without opportunities for comparison in competing stores. They are well described by the term "shopping goods."

**Changes in Directions of Population Growth.**—The value of the location is not only dependent upon the population within a trading radius which varies with different lines of goods but also upon the trend or growth of that population, whether increasing or decreasing. A retail location has a higher value in a community in which it is known that the population is increasing than in a community in which the population is standing still or declining. The rate of change in population is a highly important factor that is almost invariably discounted in the rental rates.

Clearly in a populous section of the country where there are many retail centers, the trading radius of a retail store dealing in convenience goods must be quite limited, but for shopping goods a good retail store may draw its trade not only from its immediate community but also from surrounding territory. The census population of a city or town in which a store selling such goods is located may not be an adequate measure of the trading population. Certain classes of stores such as deal in apparel and home furnishings may draw trade for many miles and even from outside smaller towns. Good roads and easy means of transportation are important factors in extending the trading radius of such stores.

The direction of growth taking place within a community is another important factor in the value of a retail location. A store on a street rapidly becoming the thoroughfare for a growing retail trade has higher rental value than one from which the retail trade is passing away.

The value of a retail location is also dependent to a considerable extent upon the dominating races and nationalities of the people within the communities, whether they have lived in this country a long time and have completely absorbed American ideas on standards of living or whether they are recent arrivals.



**Predetermination of Value of Locations by Counting Passers-By.**—Many other factors enter into the value of a retail location as we shall see, but accessibility to numbers is the first consideration. In comparisons of the values of retail locations careful account is taken of the number of available customers within the trading radius. For many kinds of business the number of passers-by is the best guide to the possible volume of retail trade. The location within any community which offers the best and greatest prospects of retail trade is called a 100% location. The number of passers-by is always an important consideration in the determination of the 100% location. The character of the passers-by, their reasons for passing, and their purchasing power are also given due consideration. What is a 100% location for one store may be only a 60% location for another.

Methods of securing accurate estimates of the total number of people passing any given location under consideration for use as a retail store are usually known as counting or "clocking." Investigators are posted at or near such locations at various hours during the day for a period of several days and with counting apparatus or devices take a record of all persons passing by. Such counts are usually made during the busiest retail hours as from 10 to 12 o'clock in the morning and from 2 to 4 o'clock in the afternoon.

Some of the chain stores have become very expert in clocking passing people and in drawing up estimates therefrom on the possible retail trade of a given location. For example, the average number of people passing a certain location may number 10,000 per day. From experience gained in other

locations and in other cities, but under similar conditions, it is assumed that a certain number of passers-by can be induced to stop and to come into the store. If it is estimated from such previous experience that 5% of passers-by can be induced to enter, that 3% of those who enter make purchases, and that the average sale amounts to 60 cents, then it may be computed that out of the 10,000 daily passers-by 500 will enter the store and 300 will make purchases amounting to $180. In a year of 365 days, the total sales might be estimated to amount to $65,700.

The number of passers-by who can be induced to enter varies greatly with different kinds of retail businesses. Cigar stores and drug stores in some towns estimate that as high as 10% of the passers-by can be drawn through the doors and that more than three-fourths of these will make purchases. In the case of women's specialty shops dealing in popular-price outer apparel only 1% of passers-by enter and only half of these make purchases. Restaurant and lunch counters secure a very low percentage of passers-by during the hours between meal times but a high percentage at meal time hours.

**Character of Passers-By.**—Another classification of passers-by that will prove helpful in determining an estimate of the possibilities of a location is based on the purpose or the reason for their passing by. Some are going to or coming from their places of work or business. Others are out for pleasure. Others are out to buy, while others are out merely to look.

Passers-by going to or returning from work or business are, as a rule, not good customers for anything, with the one exception of the higher-salaried and income-receiving classes who patronize news-stands, boot-blacks, barber shops, cigar stores, and, to some extent, haberdasheries, on their way to and from business. Large crowds of factory employees, men and women, may pass a store day after day for years on their way



to and from work and never patronize it. On their way to work, there is usually little time left before the whistle blows, hence there is little or no chance to look at goods. On their way from work, they are usually tired and hungry, and not in the mood for shopping. Many factory workers, particularly of the younger generation, do not care to trade in a store or in a part of town where their occupation is known or where any reference may be made to their daily labor. The "down-town" retail district is much more likely to draw their trade.

A very large part of the goods of all kinds needed by the American family is purchased by the women of the household and thus the trade goes to the locations that are the most convenient or attractive for them.

The only classes of retail business that seem to do well on the custom of working people, going to or coming from work, are the cheaper grade of restaurants and lunch counters, tobacco stores, fruit stands, and so on.

Pleasure seekers are usually better buyers than the army of workers passing to or from work. Refreshments, flowers, sweets, souvenirs, and trinkets are some of the objects that may appeal to their fancies. Such trade is strictly chance custom. It is entirely dependent upon the time of year, the occasion, and the weather. A fine summer day brings out a crowd of people along the fashionable streets. A converging point of such thoroughfares makes a splendid location for a refreshment stand. On stormy days the same location may be worth nothing. The street leading out to the fair grounds when the fair is in session, and the route to the circus ground when the circus is in town, are dotted with refreshment booths, the best located doing a good business and finding it profitable to pay a high rental for the day for the location which would be worthless on the morrow for the same purpose.

The people who come out for the express purpose of shopping and buying are by far the most important classes for

the majority of retail businesses. The places frequented by these people are the places that are valuable for retail purposes. Shoppers and buyers go where they think they can see and get what will give them the most satisfaction. Except for necessities of everyday use and convenience goods, the place to buy, according to the opinion of the shoppers, is nearly always in the heart of the town. This may be the location of the village corner store, the big stores at the intersection of the principal streets in the city, or near the places where the great public markets are located. Here, in the mind of the average customer, are offered the greatest variety, the best qualities, the best facilities for examination, and the biggest bargains. Because others come here to purchase goods, this is assumed to be the best place. In any case, this central point is the most valuable retail store location. This is the so-called "100% location." Retailers who cannot get this best location struggle to get as near to it as possible, and rents are largely bargained for on the basis of distance from this central market point. Thus the retail store group spreads out from the center, especially along the streets most frequented or best traveled.

**Purchasing Power.**—In considering the value of a location for a retail store, however, something more than the number and objects in view of passers-by must be taken into account. The purchasing power and the probable proportion of customers from the passing crowds are most important considerations.

Indications of the total amount of purchasing power of any community may be obtained from a study of the industries carried on in that community, the number of people employed, the total and average payrolls, and other sources of revenue. Other indications of the purchasing power of the people are the number and kinds of automobiles owned, types of homes occupied, and rentals paid. In larger communities there may also be available statistics on bank deposits, volume of check



payments, savings of various kinds, income taxes paid, amount of life insurance held and sold, the number of telephones, the number of homes wired for electricity, literacy, and the circulation of leading magazines. Even the number of retail stores by lines and in total in a community roughly approximates the purchasing power of the community.

An important consideration in estimating the purchasing power of the people in a community is the number of women and children employed. Since most goods sold through retail stores are purchased and consumed by family units rather than by individuals, family incomes, rather than individual incomes, constitute the real measure of purchasing power. The employment of women and children varies considerably from community to community. Clearly, where many women are employed any statistics of wages received only by the men employed are inadequate as a measure of family income and, therefore, of family purchasing power. Measuring the current standards of living by the wages received by the man alone results in an inadequate picture of the retail purchases of the community.

Size of family is also an important factor in relation to the purchasing power of the people within any community. In the early years of large families ordinary incomes are largely consumed in the purchase of the absolute necessities such as food, clothing, rent, doctor bills, education, and so on. In the later years of the life of a large family, when the children have grown up but are still at home, some part of their incomes is in many cases contributed to the family and may be considered as a part of the family income. Under these circumstances the purchasing power of such families is modified to a very considerable extent. This subject is discussed in detail elsewhere.[1]

A knowledge of the average wealth might be misleading, especially if there are several classes in a community. Most

[1] P. H. Nystrom, Economic Principles of Consumption, Chs. IX and XI.

of the passers-by might come from families whose total incomes were under $1,800 per year, while, if a millionaire came by occasionally, the average income might seem to be above $2,000. What the man who wishes to start a retail store wants to know is how many out of this passing crowd spend $20 for their suits of clothes, how many $30, how many $45, and how many above that; or how many of the women passing spend less than $10 per year for millinery, how many between $10 and $20, how many between $20 and $50; or how many of the men who pass own cars costing less than $600 and how many own cars costing more than $1,500. The average of wealth is a poor guide to such facts. Specific amounts expended by specific numbers of people who pass by are much more desirable facts.

**Differences in Consumption Habits.**—We have so far considered the possibilities of a retail store location from the standpoint of the number of passers-by, the purposes that bring them by, and the buying power represented. Another factor having an influence on the value of a location is the buying habits of the possible customers. Not all people within even the same economic classes, or those having the same incomes, expend their money in the same way. In nothing is this more clearly exemplified than in lines commonly called luxuries. Some people spend their money freely for such items, while others with the same income do so sparingly.

The average consumption of such commodities varies greatly from one community to another. Some years ago, George J. Whelan, then president of the United Cigar Stores Company, estimated the expenditure for cigars in the principal cities as shown in the table on page 137.

Other things being equal, the value of a location for a cigar store passed by a certain number of people cannot be as high in Milwaukee as a similar location in San Francisco passed by about the same number.



ANNUAL CIGAR CONSUMPTION IN AMERICAN CITIES[2]

| | |
|---|---|
| New York | $1.74 per capita |
| Chicago | 0.63 per capita |
| St. Louis | 1.21 per capita |
| Rochester | 0.97 per capita |
| Spokane | 0.60 per capita |
| San Francisco | 4.06 per capita |
| Milwaukee | 0.22 per capita |
| Atlantic City | 2.55 per capita |

Such differences in tastes and habits are, no doubt, just as important in many other lines. In this connection it may be noted that tastes and habits are neither stationary nor permanent. What is true for one year may not be true for the next. In so far as such changes take place, they are reflected in the retail business and thence back to the location of the retail store that is most conveniently located to serve demands.

**Natural Retail Store Groupings.**—Stores tend to cluster around this best location in the city and to form what is known as the retail district. The stores established are not always competitors. Almost as frequently they arrange themselves into complementary groups, cooperating with each other in the attraction of custom and in the making of sales. Thus, stores dealing in men's goods are sometimes found on one side of the street, while stores dealing in women's goods are located on the other side. Department stores, dry goods, millinery, jewelry, shoe, and 5 and 10 cent stores are likely to be found close together. Grocery stores, meat markets, and bakeries tend to form another grouping, each cooperating in a way with the other kinds of stores in the group. Confectioneries, soda and ice cream parlors, florists' shops, and moving picture theatres form another natural grouping. The billiard hall, tobacco and news-stand, and the cheaper grade of restaurants form still another.

But stores that sell exactly the same kinds of goods, and that are clearly competitive, do not necessarily merely divide

[2] *Printers' Ink*, quoted in P. T. Cherington's "Advertising as a Business Force," p. 187.

the business that might be done if there were but one store. Known competition in itself attracts trade, and people come from farther away. New wants are developed that did not exist before. Thus the result is an increase in the total amount of trade. Cases are known where the increase was so great as to give to each of the competitors more business than had been enjoyed by the single merchant before. This, of course, is exceptional.

The tendency for stores to cluster closely together is not only profitable to the merchants themselves, but is a convenience to the customers. The convenience to the customer may be the chief cause for the close grouping. Stores handling the same or similar lines and stores handling different lines of goods, all close together, save the customer's time. This is, probably, the greatest argument for the department store, which assembles many lines under one roof.

Most customers, particularly women, like to compare values in different stores before purchasing. An investigator for a large publishing house [3] has stated that "before she buys, a woman usually visits three stores to compare goods. The man, who is distinctly 'anti-shop' in his inclinations, on the contrary, visits but one." Competing stores, located close together, and dealing in goods that women buy, make such comparisons easy.

Another advantage of locating competing stores close together is the possibility of drawing trade from customers who had planned on going directly to some one of the competitors. Such customers may frequently be induced by attractive window displays to enter other stores. Whether they do or do not buy the goods that they had come out to buy from the competitor, on seeing the displays, they may buy other goods that they had not thought of before. In this way even competitors help each other to a certain extent.

[3] C. C. Parlin, manager of Research Division, Curtis Publishing Co., in an address before the Associated Advertising Clubs of the World, September 24, 1913.



A location next to a large, old, well-advertised, well-known, and popular store is always valuable for another store dealing either in complementary or competitive lines of goods. A middle-west wholesale house that has a service department to aid those who wish to establish variety goods stores frequently advises the locating of the new store—so it is stated—next door, if possible, to the chain 5 and 10 cent store, if there happens to be one in the town, or to a department store. Out of the crowds who go to the latter, many can be attracted into the independent variety goods store. The advertising value of the big store is shared to a certain extent by the smaller and newer store next door.

In cities or towns having public markets that amount to anything, stores frequently group themselves about the market place. It has been remarked by several writers that the establishment of city markets in this country is usually opposed by the city merchants, particularly those who deal in the goods likely to be bought and sold on the public market. There is probably reason for this, but after the city's merchandising has once readjusted itself to the market, its removal is generally strongly opposed by the merchants. The removal of the city market has in many cases ruined whole retail districts which had been built up around and near the old market place. This merely exemplifies the principle that retail stores must go to the people and that the people are not likely to go out of their way to find the stores.

**Influence of City Traffic Movements.**—Any influence on the course of people's movements affects the value of a retail location. Certain streets are more popular than others, and one side of the street is generally more traveled than the other, with a consequent difference in value for retail purposes. One must assume that there are definite reasons for this, and upon the basis of these reasons the retailer must select his location or make the best use of the one already selected.

**Men's Shopping Zones and Women's Shopping Zones.**—In a great many cities retail stores dealing in men's goods are usually located on one side of the principal business street, while retail stores dealing in such goods as are purchased by women are to be found on the opposite side of the street. Thus, men's clothing, men's furnishings, sporting goods, restaurants, and quick-lunch rooms such as cater to men, men's shoe stores, and billiard halls are located on the men's side of the street while women's apparel stores, dry goods and department stores, 5 and 10 cent stores, and the moving picture theatres are on the opposite or women's side of the street.

In some cities, entire streets, including both sides, are distinctly retail centers for men's goods while others are trading centers for women's goods. For example, in the retail trading section of Atlanta, Georgia, Peach Tree Street is largely given over to retail stores catering to men while Whitehall Street is distinctly a women's shop street. In Hartford, Connecticut, Asylum Street is a trading place for men's lines and Main Street is almost exclusively taken up by women's shops and stores. Public markets, grocery stores, meat markets, and general food stores, when located in the central retail section, are quite often in or near the locations given over to stores catering to women.

Retail stores that attract both men and women, particularly such as drug stores, are generally located at the principal transfer corners or intersections of busy streets. Such locations are also very much in demand for cigar stores and soda fountains.

**Women's Shopping Zones More Valuable.**—In communities in which there is a segregation of retail stores on sex lines, as indicated above, the value of locations on the women's side of the street or in the section given over to retail stores catering to women is usually considerably higher than the locations occupied by stores catering to men. The difference



may be from 25% to 50%. This may be explained by the fact that the volume of trade obtainable from women customers is much higher than the amount from men. Various estimates indicate that from 75% to 90% of all retail purchases are made by women. Hence, the retail stores catering to women's trade not only draw the largest volume of business but also must pay the highest rent for their locations.

**Causes of Peculiarities in City Traffic Movements.**—Sunlight and temperature tend to make one side of the street more crowded than the other. In warm climates and in warm weather, people seek the shady side. In colder climates, and in the winter time, they take the sunny sides. Which side of the street is most popular must depend, therefore, upon what time of the day shoppers come out in greatest numbers. In most stores the heaviest trade occurs from 10 A.M. to 4 P.M. The richer classes in the larger cities do their shopping generally between 11 A.M. and 3 P.M. For most parts of the country the sides of the street that are shady during the afternoon, namely, the south and the west sides, are the ones which people prefer. The exceptions are some of the cities in the most northern tier of states, where the most popular sides of the street are the north and east sides. This seems to be true more especially for the winter, late fall, and early spring months.

The shady side of the street has another advantage. Because of the reflection of softer lights from the plate glass and show-window backgrounds on this side, the window displays appear to better advantage and, therefore, draw more attention. Also a greater variety of goods can be shown, and much better effects can be obtained on the shady side of the street than on the sunny side, because of less danger to the goods themselves from the effects of the sun. Goods of delicate shades often fade easily and need protection from the sun's direct rays. In order to display such goods on the

sunny side, awnings are necessary, but awnings interfere with the widest and best use of the front of the building and windows, hence may be considered as necessary evils only.

In New York City, for example, the west side of Broadway and the south side of Fourteenth and Twenty-third streets and other wide streets are worth more than the opposite side. On Thirty-fourth street, however, the north side of the street is the better. Generally speaking, the west side of Fifth Avenue is the better retail side, although there are several very important and very successful stores on the east side. On Fifty-seventh Street there are smart, successful shops on both sides of the street.

R. M. Hurd, in "Principles of City Land values," states that the west side of north and south streets, and the south side of east and west streets is generally worth from 20% to 40% more than the opposite sides, and in some cases the difference in value may run as high as 100%.

In some places there are prevailing winds that strike certain locations or one side of certain streets in a more disagreeable way than the other side, causing values to be less on the exposed side. Dusty and windy locations are never desirable if they can be avoided.

If a town is built on a side hill, the upper side of the street is nearly always preferable to the lower. There seems to be a sort of inherent tendency among human beings, as among goats, to get up on the upper side of things. The reason may be that the upper side gives a better view, or it may be that it is less laborious to go from the upper side to the lower side if necessary to cross the street. Dust and refuse tend to gather on the lower side of the street, with the result that the upper side is generally cleaner. Whatever the cause, the fact remains that the upper side seems to be favored in most cases. This tendency may be somewhat, but not entirely, remedied by having the streets graded so as to put the walks on both sides on the same level.



Most merchants of many years' experience know of "blighted" or "hoodoo" locations, places which would seem to be favorable for a retail store, but in which every merchant who has tried them has failed. Business men and customers lose all confidence in the location. New tenants who take such places without proper advance investigation, find out and then close out. It is not easy to account for such conditions. For one thing, a succession of failures hurts a location for future trade. Not only do careful merchants avoid such places, but customers also stay away. It takes more than average ability to turn the tide toward success in such places. There is an old adage among merchants that applies here, to the effect that it is easier to start a new business than it is to raise a dead one.

Often the only explanation for the value of a side of a street for business purposes is popular habit. People continue to take one side rather than the other because some time in the past they found it best to do so. After the reason for so doing passed away, the practice continued as a habit.

Speaking of the peculiarities of the habits of crowds, R. A. Bruce, formerly a general manager of the Beck Shoe Store Company of New York, operating a chain of New York shoe stores, says:

"Walk up Broadway from 23rd Street to 50th. The crowd seems to be about the same on both sidewalks. There are stores on both sides too, prosperous stores. It would seem to be a matter of no consequence which you located a shoe store on. Yet the west side is good for shoes and the east side is bad. That holds good up as far as 40th Street and then it suddenly shifts. From there up to 50th the east side of the street is a little better than the other. Why? I can't tell you, but it is true."

**Comparisons of Corner and Inside Locations.**—Corner lots are more valuable than inner lots for the very reason that

more people pass them. The corner of two streets, both equally well frequented, is passed by twice as many people as any inside lot on either street. Again, the corner is a kind of stopping place or pausing point for people who are uncertain as to where they are to go. Heavy traffic passing may cause them to stop. The moment's pause may be sufficient to cause the passer-by to notice the corner store window display and to be drawn in to examine goods and to buy. In bad weather, corner locations are valuable because people drop in while waiting for cars or to await the passing of the shower. The corner is frequently the designated meeting place for many people. For these reasons the corner is of considerably greater value than the inside lot, especially for businesses depending upon pick-up trade or chance custom, such as cigar stores, drug stores, news stores, shops dealing in curios, souvenirs, and novelties of any kind.

A corner location is worth from 25% to 100% more than an inside location. Tax and assessment experts usually assert that the corner lot is worth 50% more than inside lots, and that the corner influence extends at least 100 feet down each street from the corner in a diminishing ratio. Newark, New Jersey, for example, assesses all business corner lots 50% higher than inside lots.[4]

There is a difference in value in the corner locations that corresponds to the difference found between opposite sides of the street, and for similar reasons. In localities where the south and west sides of the streets are most popular, the southwest corner is most valuable, the southeast corner comes next, the northwest corner next, and the northeast corner last. In localities where the sunny sides are preferred, these values would be reversed.

**Upper Floor Locations.**—So far in this chapter, entire attention has been given to a discussion of ground floor locations and the factors affecting their values. Retail shops, particularly in the larger cities, are sometimes located on second or even higher floors. Certain low-priced clothing houses have apparently succeeded with second floor locations in busy retail sections of such cities. Among these may be mentioned the Bond Clothing Company, Royal Tailors, and Foreman & Clark. Credit concerns dealing not only in men's apparel but also women's apparel, furs, and jewelry are sometimes found on second floor locations. The difficulty of making profitable use of a second floor for retail purposes when the ground floor is used for some other purpose is very great and savings in rents from taking second floors may be largely neutralized in the additional amounts that must be expended for advertising in order to attract consumer trade. Usually second floor rentals are only 40% to 50% of the amount of rentals secured for the ground floor spaces below.

[4] "Real Estate and Its Taxation in Philadelphia," a pamphlet published by the City of Philadelphia.



**Factors that Harm Retail Locations.**—The presence of nearby disagreeable features of any kind reduces the value of a location for store purposes. Smoke, dust, disagreeable odors, and noise from nearby shops or factories, hurt. A location that is darkened by shadows of large buildings is also less valuable. All of these factors depreciating the value of the location must be made up, if at all, by using more advertising, special store fronts, unusual lighting effects, or striking window displays.

Proximity to garages, hospitals, or schools generally cuts down retail trade, and hence affects location value adversely. The hospital always suggests unpleasant things to the mind of the average person, and location near a school is likely to be affected by the noise of children playing.

If the sidewalk is good on one side of a street and poor on the other, or if the sidewalk is level on one side and uneven on the other, people will take the better walks in the large majority of cases. Steps up or down from the sidewalk to

a store lessen the value of the location. A rickety sidewalk has the effect of driving customers to the other side. A sidewalk kept clean, free from snow, ice, slush, and standing pools after rains, is always preferred.

Old and worn-out structures nearby hurt a retail location, and it is commonly asserted that an empty building next door to your store is your worst competitor. The best location is the one that looks the most prosperous. Empty and old buildings indicate favor passed away. The store manager who finds that the building next to his is vacated, in many cases, either tries to rent it for his own use, or attempts to get a tenant for the property who will sell non-competitive or complementary lines of goods.

**The Effect of Retail Store Competition on the Value of Location.**—Attention has been drawn to the tendency of retail stores of correlative lines to cluster together. Competitive stores within the same lines are also usually established in close proximity to each other. Such clustering is highly advantageous to retail businesses when the lines supplement each other, as for example, women's millinery shops, women's shoe shops, jewelry stores, and apparel shops. Each is helped by the others. The total volume of business is also undoubtedly increased considerably by the clustering of competitive businesses. The establishment of several women's apparel shops close together permits easy shopping and attracts trade from considerably greater distances than would any one single shop. It is not an uncommon thing to find several department stores close to each other in the large cities, and even chain stores dealing in variety goods and general merchandise are frequently located close to each other.

It may be safely presumed however that there is a limit to the good that can come to the individual store from the clustering of competitive shops. While the group secures a greater total volume than could be secured by widely scattered individual stores, it is quite another question as to whether the individual stores may not suffer distinct losses from competition, first, because of the aggressive competitive methods of certain stores within the cluster, and, second, because there may be too many stores of a certain kind within the cluster in relation to the total population and purchasing power.



It requires the trade of at least 50 families to support a grocery store on a profitable basis. Similarly, it requires the trade of about 200 families to support a drug store, and of about 1,000 families to support a 5 and 10 cent store. Four individual grocery stores forming a retail trade cluster in a community of 200 families may enjoy an excellent business, but the addition of two or three more stores to this cluster would probably draw no additional trade to the group and would, therefore, only divide the existing trade to the point of unprofitableness. There are many cities and towns throughout the United States in which this condition most certainly prevails.

In addition to the competition coming from other stores within the group or cluster, consideration needs also to be given to the possible or actual competition of retail stores in other nearby communities. Good roads, easy means of travel, and prompt retail delivery service over wide areas are factors which result in deflection of trade from one trading area to another and indeed from one city to another. Investigations of actual trading conditions in nearby towns usually show that there is always a certain amount of this deflection of trade and quite generally most of it goes to the town in which there are the most up-to-date and most aggressive retail stores.

Other things being equal, the store easiest for customers to reach has the best location. The places where the cars stop, where the people park their cars when coming to town, and where the street has the best pavement or road bed, are the most valuable. Street cars and telephones tend to concentrate the business of a community into its central section. This

results in an increase in the value of land in this section, and a decrease in land values, for retail store purposes, in other parts of town farther out. The development of parcel post, the almost universal use of the automobile, and the development of better roads, have helped to concentrate trade in the retail districts of the larger cities. Locations in such places have seemingly grown more valuable with nearly every improvement that has been made in the means of transportation and communication.

Many other factors of varying degrees of importance influence the value of retail store location, but all depend for their influence upon the principle laid down at the beginning of this chapter, namely, that the value of a site depends entirely upon its possibilities for making profits.

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# CHAPTER VI

## RETAIL RENTALS

The amount of rent paid for a retail location is usually a result of bargaining and negotiations between the owner of the property and the retailer who wishes to use it. The contract providing for the use of the property by the retailer and the payment of rent to the landlord is called a lease. Such contracts extend for varying periods of time, from a few days or even hours for transient business, up to many years and decades. Among retail businesses of a permanent character three- and five-year leases are very frequent. Large chain store organizations with well-defined leasing policies, in the earlier years of their development sought short-period leases of five years or less, but more recently the tendency seems to have changed to longer periods such as ten and fifteen years, and leasing periods of twenty, thirty, fifty, and even 99 years are now not uncommon.

The rent to be paid for the use of the property is usually a stipulated sum payable monthly, quarterly, semi-annually, or even annually. Payments are usually demanded and made on the first of each month, or other corresponding periods rather than at the end of the month.

While the amount of rent is usually expressed as a definite specific sum of money, there is a growing number of cases in which rentals consist of a fixed amount plus a percentage of the net sales, or even of the net profits of the retail business occupying the property. There are even cases in which the entire rental is determined as a percentage of the net sales.

While the rental may be a fixed and definite sum of money payable periodically, it is customary in the retail business to

consider the relation of this amount to the total volume of business transacted. From a practical standpoint, in attempting to determine whether a rental is reasonable or not, or for purposes of comparison of one business with another, statistics of the amounts of rentals mean little or nothing unless expressed in ratios to or percentages of the business transacted. Whether a rental of $400 a month is too high or too low depends entirely upon the volume of business and ultimately upon the net profit made on the location under consideration. If this amount of rental be paid for a building and location yielding net sales of less than $50,000 a year, in most lines of trade this amount of rental would be considered exorbitant and unprofitable. If, however, this rental be paid for a building and location yielding net sales of $200,000 a year or over, it might be considered very reasonable in amount.

Therefore, whatever may be the method of direct payment to the landlord, the rental is always to be considered in relation to the volume of business transacted, and this relationship is usually expressed in percentages. Thus the retailer who pays $400 a month rent and whose sales amount to $50,000 a year is said to have a rental expense of 9.6%, whereas the retailer who pays a rent of $400 per month and whose sales amount to $200,000 per year has a rental expense of 2.4% of sales. The practice of expressing rentals in terms of percentages of net sales is generally followed in all business and economic literature.

When a location and improvements, that is, the land and buildings, are owned by the person or company using them, rent is not actually paid, for such payments would merely be a transfer from one account to another within the same business. The location and improvements, however, have a rental value. Many retailers who own their own buildings omit rental charges when computing their costs of doing business. From a practical and individual standpoint this may be quite



proper but is quite erroneous in case of any comparison with the operating expenses of other concerns who do not own their locations and improvements and who must pay rentals to landlords. It may also be urged that though the land and buildings used in the retail business may be owned, they clearly have a rental value. If their owner should desire to retire from the retail business he would be able to secure a payment of rent from others undertaking to carry on the business. The rental value is there whether specially set up or not, and a growing number of retailers who own their own stores compute these rental values as a part of their operating expenses of the business. The amount of rent is estimated to be what would be paid were there separate ownerships for the land and improvements and the retail business.

**Definition of Rent.**—Rent has been defined by economists as the amount paid solely for the use of the land or location. The additional amounts paid for the use of the buildings and other improvements are, according to strict economic definition, really payments for the use of the capital invested in these improvements just as interest is paid for the use of borrowed money. This distinction is to be found in the common practice of designating ground rent and building rent separately.

Ground rent in the retail business is the amount paid for or imputed to the space and location on which the retail store stands. Its value is represented by what will be paid for the use of a certain number of square feet in a certain location.

The distinction between building rent and ground rent is recognized by many business men in their accounts and records. In England as well as in most American cities it has long been customary for landlords to lease unimproved city lands for long periods to merchants and others who put up their own buildings, but who pay rent for the use of the land. This custom seems to be on the increase. Some states and

municipalities require separate assessments of valuations of land and of improvements for purposes of taxation.

Tax reformers, particularly the believers in a single tax and followers of Henry George, have long accepted this division as fundamental. Courts frequently cause land and improvements to be valued separately in condemnation proceedings.

**Practical Difficulties of Applying the Economic Definition of Rent.**—Rarely, if ever, does an arrangement between landlords and tenants specify what part of the total charge per month or per year is for ground rent and what part for building rent. The amount paid is a lump sum covering both items and, indeed, often many others as well. Out of the rent, so called, received by the landlord, the latter is paid not only for the use of the land, pure rent, but he is also paid interest on the capital improvements invested on that land. In addition to these items the landlord usually has other expenses connected with the ownership of the property. In the lump sum agreed upon in the lease it is difficult, if not impossible, to segregate these items.

**Special Conditions Often Found in Retail Store Leases.**—When making an agreement for the use of retail store property, the landlord and prospective tenant usually discuss and sometimes set down definite understandings as to many other items in addition to the rent on the land and the interest on the capital improvements. Such agreements usually specify whether the landlord or the tenant shall pay the real estate taxes and special assessments, the insurances of various kinds needed to protect the building, the repairs and renewals required by the building and attached equipment, the maintenance supplies and, finally, depreciation and amortization of the perishable elements in the property.

In addition to the foregoing, conditions are frequently made in retail store leases specifying whether the landlord or



the tenant shall meet the expenses for such extras as alterations to fit the property to its prospective use, the installation of electric wiring and fixtures, the provisions of screens and awnings, and water charges.

Agreements are likewise frequently set down regarding the settlements to be made as between the landlord and tenant in case of destruction of property by fire or other causes, or in the case of condemnation by public authority. Prearrangements on what shall be done in case of such contingencies usually result in better satisfaction and, frequently, better terms of settlement in case of termination of lease from these causes.

Lessees may also make their leaseholds more valuable by securing the right to sublet or assign to other concerns. The retailer who looks ahead usually insists that the landlord must not lease other property owned nearby to competitive institutions. Freedom of the lessee from subordination to mortgages and possible foreclosure is another factor sometimes considered of importance in connection with leasing of retail properties.

All of the foregoing conditions are of value and if assumed by the landlord must of necessity form a part of the consideration, although this consideration is still usually called rent. On the other hand, if these conditions are assumed by the tenant, the rental charge, so called, will be a very different thing from what it would be if the payment were made solely for the use of the location. Any attempt to compare the rentals paid by one concern with another is likely to be misleading unless the conditions carried out in the leases are the same, or due allowances are made for the differences.

In addition to the foregoing items, which are always subjects of negotiation and may therefore be borne by either landlord or tenant, there are other costs, such as commission to real estate brokers or rental agencies, or selling and collection expenses incurred by the landlord, if the latter chooses to act

as his own agent. These expenses must also come out of the gross rental received from the tenant.

**Treatment of Rent by Controllers' Congress.**—Practical attempts to define rent as applied to the retail business have been found exceedingly difficult. The Controllers' Congress of the National Retail Dry Goods Association has, as pointed out elsewhere, probably done the most constructive work of any retail association in the field of retail accounting. According to the Expense Manual, 1928, of the Controllers' Congress, "Rentals shall consist only of amounts incurred, or payments actually made, for the rental of properties used in the operation of the business. It shall not include taxes, interest, maintenance supplies, repairs, insurance or depreciation, which shall be charged to other natural divisions."

How difficult of application this rule is and what lack of uniformity results from its application may be seen from the experience of the Retail Research Association. Efforts to compare operating expenses and ratios in the 17 stores making up this group made uniform methods of computation necessary. Beginning with the definitions of practice laid down by the Controllers' Congress, the Retail Research Association found it necessary to add provisions intended to clarify and supplement the definitions of the Controllers' Congress. These three subdivisions were as follows:

"Rent is to consist of the following:

"1. When the premises used are owned by others—it covers the actual amount paid the landlord. It must not include depreciation of buildings on leased grounds, depreciation of leases, insurance on leased property or buildings on leased ground, and taxes on leased ground and buildings—if it is possible to eliminate them from the rent figure. Each of these items must be included in 'Taxes'—'Depreciation'—and 'Insurance,' according to its character.

"2. When the premises occupied belong to the store, rent must be 6% on the investment in owned land and building. Depreciation, insurance, and taxes are not to be included as rent. These items must be charged to the other 'natural divisions of expense' of which there are fourteen and among which there are to be found suitable headings for each of these items named.

"3. Rent must also include a 6% return on the investment in fixtures."[1]



The difficulties of securing a figure representing true rent, or rather true ground rent plus building rent, are made clear in the first rule above. The difficulty of segregating taxes, depreciation, and insurance is admitted. If not separately specified in the leases, only approximations may be possible.

The Retail Research Association, quite logically, added a charge for fixtures to the rent. If the building is to be included, then certainly the permanent, attached fixtures within the building should also be so included. But the inclusion of this charge for fixtures also clearly adds another capital item to the pure rent item, something that orthodox economists, if their opinions were asked, might find it very hard to approve.

**Treatment of Rent by the Harvard Bureau of Business Research.**—The Harvard Bureau of Business Research has for many years collected and compiled figures on operating expenses among retail stores of several kinds. In order to secure uniformity in these figures, all retail stores reporting to the Harvard Bureau are asked to include under rentals all amounts paid for rent of store, warehouse, and garage, or a fair rental charge for such premises when owned by the firm. Taxes, repairs, insurance, and depreciation, when borne by the landlord, are considered as a part of the rental charge and no attempt is made to designate these separately from pure or true rent. Where the taxes, repairs, insurance, and depreciation are borne by the retailer these items are included in the

[1] By E. C. Stephenson, office manager, J. L. Hudson Co., Detroit, in an address before the Controllers' Congress in 1928. Quoted in *Women's Wear*, May 26, 1928.

rent figure as part of the rent. When the building is owned by the retail store, the retailers reporting to the Bureau are advised to compute a fair charge for interest on the investment for land and buildings used in the operation of the business and add to this amount the taxes, repairs, insurance, and depreciation on its real estate.

When the buildings are owned but the ground is rented, then rent is to include the amount paid for the ground plus a fair charge for the use of the building. To this are added taxes, repairs, insurance, and depreciation on the buildings. The sum of these items makes up the total rent figure for the whole store.

When a leasehold has been purchased a yearly charge for amortization is included in the rental expense. Whether land or buildings are owned or leased, whenever payments or allowances for interest, insurance, taxes, repairs, and depreciation are clearly in lieu of rent, they are included by the Harvard Bureau in the rent figure and not entered under any other expense headings.

The wide variations in procedure for computing rent advocated by the Controllers' Congress and the Harvard Bureau of Business Research illustrate the difficulties of practical treatment of rent. The method advocated by the Controllers' Congress comes closer to the economic definitions of rent than does that of the Harvard Bureau. Even so, the Controllers' Congress does not go far enough to determine what the true net economic rent may be and, in the opinion of many, secures neither scientific accuracy on the one hand, nor the utmost practicability on the other, in ordinary business arrangements.

The main difficulties of determining the exact amount of rent paid for a retail location as apart from other charges, when the building is owned by the store, are due to the necessity for estimating rental values and, when the building is rented, to the necessity of separating rent from other items. The views that prevail among owners as to true rental values



of their store buildings are exceedingly diverse, and leases, as we have seen, differ greatly in their conditions.

**Ratio of Building Rent to Ground Rent.**—It is clear from the foregoing that it is very difficult, if not impossible, to determine precisely what the true or economic rent of a retail location may be. At best only estimates can be secured. Usually it is not practically possible to separate building rent from ground rent. What part of the total rental paid should be assigned to each ultimately comes down to an estimate rather than an exact figure.

There is a rule among some real estate men that may serve as a guide to a rough approximation. This rule is that the amount invested in buildings and other improvements for retail purposes should be about equal to the value of the ground.[2] Since the ground value is normally the capitalized value of the economic or true rental, the return for the use of the ground and the return for the improvements, at least while the latter are new, will be about equal. For example, if the rental paid by a retail store amounts to 2% of its sales one may estimate roughly that 1% goes for the buildings and improvements and the other 1% for the ground. This rule is only an approximation and many exceptions may be found. It is representative of the average rather than the actual in any particular case.

**Trends of Economic or Pure Rent in Retail Locations.**—The amount of rent paid for any retail location depends, of course, upon its comparative desirability, that is, its comparative profit-making possibilities. In a town where all locations are equally good for retail store purposes, and where there are more locations offered than can be used, the rent for any one location will naturally be low, probably not more than would be paid for similar property used for residence purposes. Such a condition is rarely the case, however, except in small country villages having no special features causing a

[2] R. M. Hurd, Principles of City Land Values, p. 98.

concentration of the retail business at any given point. Where there exists a considerable difference in desirability, and where there is competition for the more desirable locations, the rents tend to vary with the desirability. The more desirable the location is, the higher its rent will be. In other words, pure or economic rent, in the retail business, is paid for comparative advantages in location.

To illustrate, let us assume that a small retailer has under consideration two locations, one in which he can make sales amounting to $24,000 a year and the other in which he can make sales amounting to $30,000 a year on the same capital investment. Eliminating all other possible differences between the two locations, let us assume that the sales in both cases will yield a gross profit or margin of 33 1/3% and that the expenses in each case, excepting the rent item, amount to 23% of the sales. The net margin to cover rent and net profits would thus be 10 1/3% in each case, or $2,480 for the first location and $3,100 for the second. If both locations could be procured at the same rent, say $40 a month, or $480 a year, the difference, amounting to $620, in favor of the second location becomes evident.

But the owner of the second location, if he knows the value of his property, will want more than $480 per year. He may say to the merchant, "My location will bring you 25% more business than the other one. I must, therefore, have 25% more rent for my location. Instead of $480, I must have $600 per year." Reducing these figures to percentages of the sales in each case, it will be seen that $480 is 2% of the sales at the first location, and that $600 is 2% of the sales at the second location. In other words, in raising the rent of the second location from $480 to $600 per year, the landlord is only keeping his rent in the same proportion to sales as exists for the first location. It is practically certain that under the circumstances the landlord would be able to get at least this amount of rent.



**The Landlord Shares in the Growing Profits of Management.**—The merchant tenant will still find the second location more desirable than the first. The gross margin in each case, it will be recalled, is 33 1/3% and the expenses of doing business amount to 23% plus a 2% for rent, or 25% of sales. This leaves a margin of 8 1/3% net profit in each case. Now 8 1/3% of $30,000, or $2,500, is $500 more than 8 1/3% of $24,000, or $2,000. This $500 is still the measure of desirability in favor of the second location.

In the bargaining process between the merchant and his landlord, especially if there are other merchants competing for the same location, the $500 surplus just indicated will be an object of serious interest. Some one of the merchants is likely to offer more than $600 a year for the location, thus virtually offering to divide this $500 surplus profit with the landlord. In the competitive bidding that follows, the landlord finally closes with the merchant who offers to give him the greatest portion of this net profit surplus.

Under most circumstances, the landlord will not be able to get all of it, although that outcome is not impossible. As the rent is fixed at a higher and higher figure, the interest of the merchants begins to wane, certainly while locations of the first kind yielding net profits of $2,000 per year are available. It is the surplus above $2,000 that attracts their bidding. If the rent asked is so high as to absorb the entire surplus, the merchants will stick to the other locations. But the landlord may possibly get $300 of it, thus leaving $200 for the tenant. In this case the total rent would be $900 a year, or, under the assumption, 3% of the sales. Thus on passing from poorer to better retail locations the proportion of rent to sales tends to increase.

**The Best Locations Tend to Go to the Best Managers.**—There is another reason why rents tend to be higher, not only absolutely, but also relatively to sales for the better locations.

The competition among the retail store managers of a town is generally very keen for these locations, and the best locations naturally go to the highest bidders. While mistakes often result from such competitive bidding and store managers sometimes find themselves unable to pay the high rents agreed upon and succeed; still, in the long run, the highest bidder is likely to be the one who can make the most out of the property. There are probably as great differences in the managerial ability of merchants as there are differences in desirability of locations. The most efficient manager is the one who can make a location yield the greatest amount of profit. Hence the most efficient manager, other things being equal, is the one who is able to bid the most for the location.

In this bidding against each other for good locations, store managers are likely to give to the landlord a share of the total product which might properly be attributed to the superior efficiency of the manager.

Take the case of the second location referred to in the illustration used. It was assumed that the merchant could make a gross profit of 33 1/3% and a net profit of 8 1/3% on his sales. Now, let a more efficient manager appear, one able to cut the selling expense from 25% to 20% of sales, or one able to buy the same goods at from 5% to 10% lower prices, or one able to increase the amount of the sales, and it becomes evident, other things remaining the same, that such a manager will be able to clear more than 8 1/3% profit on his sales. If the number of locations where such efficiency can be exercised is limited, and if two or more store managers of unusual ability should be found in competition for the same location, it is almost certain that the landlord will be able to get as rent more than 2% of the sales, the amount received by the owner of the poorer location.

Suppose three merchants, Smith, Brown, and Jones, to be in competition for the place. Let us assume that Smith is a manager of good average ability and that, therefore, he is able



to clear $2,500 annually on the location, when the rent is $600 per year. Brown is a more skilful manager and is able to make $2,800 annually after paying the rent. Jones, let us say, is the most efficient of the three. He is able to make $3,000 a year in the desired location. Smith feels that he cannot afford to pay more than $600 per year for rent, and makes that his final bid for the place. Both Brown and Jones are willing to pay more if necessary. Since all three desire the place, the bids of Brown and Jones soon pass the $600 mark and Smith drops out. Brown continues his bidding up to $900 a year for the place. At this point he finds that it will be unprofitable for him to go further and that other locations offer equal opportunities for him. Jones, the most efficient of the three, makes his bid just a trifle higher, say $950, and then Brown drops out.

The outcome is that the landlord receives $350 more rent than he would have received if none other than merchants of average ability, such as Smith, had offered to take the place. Through Jones' superior talents as a store manager the location is made to yield $500 more than Smith or any other average merchant could have obtained from it. Because of the competition of other efficient men like Brown, the landlord is able to collect $350 out of that $500, leaving $150 to Jones.

The rent system, therefore, tends to deprive the most efficient men of at least a part of the special product of their efficiency. To this the land-owners would reply that the additional product is as much the result of the good location as of the superior man, and that the superior man would never have been able to demonstrate his special talents were it not for the superior location. As to the merits of this controversy, we need give no further attention here, except to point out that product and profit are everywhere the result of the economic combination of four factors—land, labor, capital, and management, and that since all four are absolutely essential, it is a most difficult, if not impossible, task to assign any exact meas-

ure to the contributions of each, or to estimate definitely the exact product specifically attributable to each.

The method suggested by most economists for determining the share of each factor, is to take a going concern using fairly well-proportioned amounts of labor, capital, and land. The total product in sales and profits of the concern is first determined for a definite period of time. Next, a unit of one or another of the factors is added, say another average laborer, another $1,000 in capital in the form of fixtures, or in stock, or in any other form, or a few more square feet of space if that be possible. Presumably there will be an increase in the total sales and profits of the concern. This increase is credited to the net unit added, and is said to be the product attributable to that unit. It is assumed that this unit of land, labor, or capital is like any other unit of land, labor, or capital already used by the concern, since it may be exchanged for, or put in the place of, any other unit. Hence the product of any unit of capital already used by the concern is assumed reasonably to be the same as that of the unit of capital last added, or the product of any laborer already employed is assumed to be the same as that of the laborer last added. Multiplying the number of units of any factor by the product thus found for one unit, the result is taken as the part of the total product caused by that factor. Thus the product of all the labor employed is equal to the product of the last man employed multiplied by the number of laborers. In the same way, the products for capital and land are found.

The only trouble with this theory is that the total products found as above are not at all likely to be equal to the total product of the going concern. In the case of all successful concerns, the total product will be greater than the sum of the products of the three factors taken separately. How this surplus is divided we shall soon see.

Despite the defects of this theory, in the division of the gross revenue of the concern each economic factor tends to



get its remuneration or a share of the total product. For example, the market rate of labor tends to equal the value of that amount of product which one laborer can add to the total product of the concern. The interest rate for capital tends to equal the value of that amount of product which one unit of capital, say $1,000, can add, if put to use in the concern. It is a little harder to illustrate the principle with land, as used for retail purposes, although the principle still applies. We may say, theoretically, that the rent per front foot tends to equal the value of that amount of profit which one unit of land, say one front foot 100 feet deep, can add if put to use by the concern.

In actual practice, the average individual business man has but little to say about what the market rates for wages, interest, and rents shall be, but taking the market rates as they are, the business man combines land, labor, and capital in such proportions as will yield him the greatest return. If the market rate for land is high, it may pay him to invest in building upper stories. If land is low, he may expend capital in building his store over more ground space. If labor is high, he may employ less of it in the store, by installing automatic machines of various kinds, use open display fixtures, install arrangements whereby goods sell themselves, and so on. If capital or money is relatively high in interest, he may economize in fixtures and equipment, and use more labor instead. Thus the business man takes on more labor, or more capital, or more land as long as he can make something over the amount that he must pay out for its use. He will stop adding units of any factor as soon as the product no more than equals the outlay.

The surplus that remains after wages, interest, and rent have been paid, constitutes the profits of the concern. By some economists this amount is further classified as the wages of management, and pure or chance profit.

The tendency among the abler merchants or store managers to compete keenly for the best locations results, in the long

run, in the best or more efficient store managers getting the best locations. The highest bidders get the best places. Normally, however, the highest bidders are the ones who can make the most out of the location; hence the highest bidders are in such cases the most efficient store managers.

Mistakes are frequently made in bidding for locations, however, and many men fail to make good under the burden of the rent and other expense assumed in the better locations. Only here and there is there a manager who can meet the highest rents and earn a good profit besides. Under the present order of business, this is the only visible, practical measure of efficiency. Thus the sifting process goes sternly on.

**Why Rents Tend to Rise.**—So far, we have compared locations of different degrees of desirability. It is evident that a location may change in desirability with the passing of time; hence we may compare the relation of the rent to the earning power of the same location at different times. One of the most common explanations for a rise in the costs of doing a retail business during the last generation is that rents have gone up. In support of this view one writer[3] gives figures from a small department store in a town of about 25,000 population which show that rent equaled 1.9% of the sales in 1883, and 3.2% of sales in 1913. Another writer[4] states that the average rental for shoe stores had gone up from 1.86% of sales to 2.6% in the fifteen years ending in 1912. Another report indicates that retail rents in Massachusetts were from 30% to 40% higher in 1910 than they were in 1897; and that wholesale store rents had gone up from 10% to 15% of sales in the same time.[5] Similar observations have been made by the U. S. Bureau of Labor.[6] Note that these increases are proportional to sales, that is, rents have increased faster than sales.

[3] Wheeler Sammons, Keeping Ahead of Rising Costs, *System*, December 13, 1914.
[4] Flint Garrison, in the *Drygoodsman*, November 16, 1912.
[5] Report of the Massachusetts Cost of Living Commission, pp. 138-139.
[6] Bulletin of the U. S. Bureau of Labor Statistics, No. 130, p. 63.



Since 1914, the trend of increasing rents has gone increasingly and relentlessly on. Rents that were 1.9% of sales in 1883, 3.2% in 1913, were probably nearly 5% in 1929. The entry of the chain stores into the market during more recent years, seeking the best locations, has sharpened the competition for locations and greatly raised rents.

Two sets of causes are clearly discernible, both of which must be taken into account in explaining these increases in rent. In the first place, part of the increase is due, not to increase in ground rent, but to building rent. Cost of building construction is much higher now than it formerly was. Such increases in cost must be met in the investment and must in turn be covered by a higher return. Better store buildings, fixtures, fronts, windows, and so on, are required today than ever before. These improvements mean additional outlays that must be compensated for by the merchant-tenant who uses the store. These items, interests, and upkeep on a higher investment due to higher building costs, and interest and upkeep on a more expensive equipment, certainly account for a large part of the increase in total rent noted by business men everywhere.

In addition to the increases in rents due to higher costs of building construction, ground rents themselves have also been rising. In previous periods many towns came into existence in this country and small towns grew into large towns. In general, a large part of the country, in this period of time, emerged from frontier conditions. Locations that were comparatively new have become old and well-established. A retail location used continuously, especially if managed in a way satisfactory to the public, naturally draws an increasing trade. As the trade increases, the location improves. This improvement may be due to the active business methods of the store manager, but whatever goodwill is gained by the manager tends to attach itself to the location. There is an old saw among dealers that "steady improvements in a retail business

follow the stand and not the man." A merchant may sell out and move across the street, but many of his customers will continue to trade at the old location if the service remains the same. Thus, as the cultivation of the trade at a given location proceeds, its value goes up.

As the trade at any location increases, the possibility of making a larger profit increases. The best locations in a town are nearly always those that have been cultivated for some time by good business managers. As the desirability of a location increases, the competition for it grows keener, with the result that the rent that will be offered and paid to the landlord will not only increase as the sales increase, but will tend to do so somewhat faster. Thus the same forces which operate to fix relative rents among poorer and better locations, at the same time operate to fix relative rents for the same location as it grows better with time.

Just as some locations have increased greatly in values and rents others have become less desirable. It is doubtful if in this country these cases equal the number showing the counterbalancing effect, the tendency to increase. Population has been increasing rapidly, earning power per capita has gone up, and the amount of retail business has been on the up-grade for several years. Statistics are not available to show clearly whether the number of stores in the country has kept at even proportions with population and consumption of goods during this time or not. But census figures do show great increases in urban population, particularly in the larger centers. It is in the larger cities that the climbing tendencies of retail rents are most evident, and the increases in population that have taken place in such places may reasonably be taken as an indication of the rent tendencies above noted.

**Rents Tend to Increase Both Relatively and Absolutely as Locations Improve.**—That the percentage of rent to sales increases as the location improves is the testimony of many



people. The following quotations will serve to present the typical view:

"The question of taking a lease of such premises will be a most important one. If the premises are in a growing neighborhood, and a shop is taken with no lease, or merely an agreement for two or three years, the tenant will be at the mercy of his landlord at the expiration of that time.

"Should the business increase and become a success, the landlord will most likely require a substantial increase in the rental." [7]

"The retailer must also reckon with a rental that has a yearly probability of increase as he builds up a trade. His landlord is a ready partner in his profits." [8]

"I am impressed by the fact that the popularity of the cry for leasehold reform is greatly due to the general conviction that the shopkeepers and small tradesfolk are systematically despoiled by the landlord whenever a lease falls in. The freeholder or a long-lessee lets a foothold in the business life of London to an industrious and enterprising trader—a butcher, a photographer, a grocer, a printer, a draper, what you will. The working occupier gets a lease for a few years, puts in what needful capital he can raise, spends freely his own time and brains and makes a business, but that business is often wholly and always partially annexed to the spot where it is made. There are not a dozen bakers in London who would not pay a heavy fine rather than move a mile. Therefore, you have him in a trap. Some security you must offer him, or he will not put his money down, but the competition is keen and he will take a wonderfully short tenure. That done, you watch his business with affectionate interest, for you will skim the cream off by and by. Knowing that he cannot leave without a loss, of say, 1,000 pounds, you will fine him 900 pounds for your leave to stay. You first charge him for dilapidation, so

[7] Richard Beynon, Drapery and Drapers' Accounts, pp. 160-161.
[8] Sullivan, Markets for the People, p. 45.

called, then you lay on a rent, probably beyond what another man would give you; then you ask a fine, in cash, or in the form of building improvements, remembering all the while that amazing axiom of the law, 'that whatever of his property he affixes to the soil forthwith belongs to you.'" [9]

"By the leasehold system the landlord is not content with taking the house that he did not build; he also takes the goodwill of the trade attached to the house, and, on renewing a lease, extorts a heavy payment for allowing the tenant to continue to enjoy his own business which he has brought to the house under the hard penalty of being turned out of the house altogether. . . . It is also cant to talk about freedom of contracts, for the tenant would be ruined if he did not submit to his landlord's terms." [10]

That rents in the retail business do actually show a tendency to increase, not only absolutely but relatively as well, on passing from poorer to better locations, or for the same location as it becomes more desirable over a period of time, is amply borne out by such figures as are available on the subject.

**The Ratio of Rents to Sales Rises on Passing from Smaller to Larger Cities.**—On passing from the best locations in small towns to the best locations in larger cities, the same rule seems to hold. The share of the landlord tends to increase faster than the sales. The rent for the space occupied by a good dry goods store in a small town of 10,000 amounts to 2%; for the best-located store in a city of 25,000 it may be 3%; for a well-located dry goods store in a city of 300,000, it will be 3½%; and in a city of over 1,000,000 it is more likely to be 4½% of sales. A small country town shoe store pays 2% in rent; in a town of 25,000 population, one of the best shoe stores pays 3%; and in a large city the rent amounts to 6%. These instances are typical.

[9] B. F. C. Costelloe, a member of the London County Council, quoted in Dawson's "Unearned Increment," p. 40.
[10] Dawson, Unearned Increment, p. 52.



**How High Can Rents Go?**—Such questions might very properly arise at this point, as, how high can retail rents go; are there any checks preventing the complete operation of these principles of rent; and are rents likely to absorb all pure profits?

In considering how high retail rents can go, one must constantly bear in mind that there is competition of landlords as well as of store managers. The rent for the best location in any town can go no higher than the point which equalizes the profits from that location with the profits which may be earned in the next best locations. Rent can absorb a great part of the profits made by retailers of average efficiency, but never all of the profits made by the most efficient. The most efficient man will leave the best location for the next best when the landlord raises the rent above the point that leaves the store manager no surplus profit. As no other manager can pay as much rent, the landlord will soon call him back again. Thus, while rents tend to crowd profits, they can probably never absorb all.

**Changes in Retail Trading Centers Affect Rentals.**—One might assume that long ownership of a single location, well managed, would finally lead to getting the highest rents. The history of retail districts in cities shows, however, that the point of best locations is never really stationary, and that in the course of a generation it is likely to be several blocks from the original place.

Though merchants through a period of years may build up trade and goodwill which are in turn, to a certain extent, absorbed in the landlord's rent, general currents in retail trade beyond the control of any merchant finally come and sweep away all these advantages. In scarcely a city in the country does the center of the retail district occupy the same place today that it occupied fifty years ago. Though taking more years to accomplish the changes, the same thing seems to be

going on in the older cities of Europe as well. Retail locations have their periods of rise and decline in desirability just as empires have their rise and decline in power. Every change of this kind brings new opportunities to new groups of people in the business field.

**Checks on the Free Operation of the Laws of Rent in Retailing.**—There are several checks to the complete and perfect operation of the tendencies of rent that have been enumerated. For one thing, retail profits are hardly ever so certain as have been assumed in the illustrations used in this chapter. Some allowance must always be made for the element of chance that stands out large in the retail business. The profits assumed in the illustrations might materialize one year, and the next year might be a minus quantity, or deficit. Both the store manager and the owner of store property must constantly make estimates of the possible business and profits, but in practice, these estimates are always subject to qualification. Hence the merchant offers less rent, and the landlord may take less rent, for a time, than would otherwise be necessary or probable if the business were more stable.

Another check to the free operation of these tendencies is the ignorance of the landlord in many cases regarding what his tenant, the merchant, is really accomplishing with the location. The latter conceals his profits and pleads for the lowest possible terms. In the absence of keen competition he is in many cases able to keep his rent down to a low percentage of sales, simply because the landlord does not know how much the location is worth to him.

Then there are customary rents beyond which landlords find it hard to push the retailers. In small towns $100 per month is the highest customary rent, though on strict economic principles, some locations might pay $110, $125, or even more. The retailers of a town sometimes come to an understanding not to pay more than a certain rent. Checks on retail rents



such as custom and combinations of these kinds are characteristic of the easy-going little country town rather than of the brisk, rapidly-growing city. In the latter environment custom counts for little and combinations are usually easily broken up.

The long-time leasing system also acts as a check on the operation of the laws of rent. It prevents the ready adjustment of rent to the actual, present desirability of the location. Under the long-term lease, sometimes one party gets the benefit and sometimes the other, depending largely upon whether retail trade currents are coming toward or passing away from the location at the time of the making of the lease and thereafter.

Bargaining is not always carried to the extreme auctioning method indicated. In many cases a merchant makes as good an offer as he can, once and for all, and the landlord takes him at his word, accepts or rejects as the case may be. Thus errors in market judgment are sometimes made. The rent is sometimes placed higher than it need be. Actual lessees are not always available at the times that leases expire, hence good locations sometimes go begging, as it were, because of lack of good merchants in the market seeking locations.

Many such checks act to prevent the rent tendencies from operating freely. In some cases the checks may be more powerful than the tendencies. The most that can be said until further statistics upon the subject have been gathered is that the resultant of the opposing forces seems to be somewhat in favor of what we have here called the "tendencies of retail rents."

Chain stores have notably outbid independent retail merchants for best locations in a great many American cities. To many chain stores only the best locations are acceptable. With a full knowledge of how to utilize these locations to the utmost, the chain store is not only able to secure more sales and more net profits from such locations, but also to pay higher rents for them than possible for the independents.

During recent years, the competition for so called "100%"

locations, the best locations available in the larger cities, has changed very generally from chain stores against independents to chain stores against chain stores, with the result that rental charges on such locations have actually multiplied several times within a very few years. To meet this situation, which has grown to the point of becoming a menace not only to the future of independent stores but also to chain stores occupying such locations, possibilities of mutual cooperation have been considered, partly perhaps, as a means of checking the rapacity of landlords and partly with the view of working out some new plans. The suggestion has been offered that several leading chain organizations in non-competitive lines might profitably combine in locating their stores outside of the 100% districts, and because of their respective drawing power and cooperation might be able to establish a new trading center.

The risks attendant in attempting to carry out a plan of this sort are apparent. There are very few retail institutions of any size or character that have successfully drawn trade away from its customary channels. If the plan were given a trial, the live, active retail institutions such as conducted by chain stores might be expected to make some success. Whether the establishment of a new retail center consisting of several units of non-competitive chain stores would completely overcome the resistance to change of retail traffic channels together with the competition of those retail stores occupying the present 100% locations, is still a matter of question. Deep interest has followed the apparent successes of the Sears, Roebuck & Company retail stores as well as several suburban and neighborhood branches of large department stores, all of which have recently shown great vitality, although located far from the best centers of retail trade. The possibilities of obtaining plentiful parking space for customers' automobiles is an important consideration in favor of the establishment of such new retail trade centers. The movement will bear watching.



**Laws of Rent as Applied to Retail Location.**—In conclusion, rents in the retail business seem to present the following characteristics:

1. The amount of rent paid by a store manager for a retail store depends primarily upon the comparative desirability of the location. Desirability of location means possibility of making profits in the present or the future. The more desirable the location, the higher the rent.

2. The rent tends to increase not only absolutely but relatively to profits on passing from poorer to better locations.

3. The rent tends to increase not only absolutely but relatively to profits on passing from the best locations in smaller towns to the best locations in larger towns.

4. The rent tends to increase not only absolutely but relatively to profits as the desirability of a location increases over a period of time.

5. In the long run the most efficient store managers tend to get possession of the best store locations.

6. Tendencies of rent to increase not only absolutely but relatively are checked or slowed up by:

   a. Approaching limits of sales and net profits on a given location.
   b. Changes in public trading habits, the abandonment of certain retail centers, and the growth of new zones.
   c. Lack of full information upon which to base rentals.
   d. The power of custom over rentals.
   e. The long-term lease system.

**Rents Paid by Various Retail Businesses.**—In the following paragraphs and tables, several statistics of rents paid in retail businesses will be presented. It should be kept in mind, however, that these statistics are subject to the errors indicated in the earlier part of this chapter. The figures drawn from the reports of the Harvard Bureau of Business Research present as rental costs not only building and ground rent but also taxes, repairs, insurance, and depreciation. Were these items

not included, then the totals presented for building and ground rent would be somewhat lower. In other statistics quoted, as for example, in Table 17, a great many interesting estimates are made by individuals who are either in the real estate business or who have made a special study of real estate from the standpoint of retail store use. No attempt has been made to

TABLE 17. ESTIMATES OF RETAIL RENTAL VALUES FOR BEST LOCATIONS
(In Percentage of Net Sales)

| Line of Business | Estimates by— | | | |
|---|---|---|---|---|
| | Levy [1] | Nichols [2] | Slosson [3] | McMichael [4] |
| | % | % | % | % |
| Autos | 2 | | | 2 |
| Auto accessories | 10 | | | 10 |
| Credit clothing | 8 | | | 8 |
| Men's wear | 5 | | 6–8 | 5 |
| Millinery | 12–15 | | 12 | 12 |
| Waists, hosiery, etc. | 10 | | 10 | 10 |
| 5 and 10 cent | 5 | 5 | 5 | 5 |
| Drugs | 8–10 | 10 | 10 | 10 |
| Shoes | 8 | 8 | 7–8 | 8 |
| Women's wear | 8–10 | 6 | 10 | 8 |
| Restaurants | 12 | 10–12 | 10–12 | 12 |
| Department stores | 3–4 | 3 | | 25 |
| Cigars | 7–8 | 6–8 | 7–10 | 8 |
| Jewelry | 15–20 | | | 8 |
| Barbers | | 12 | | 12 |
| Florists | 12–15 | 15 | 15 | 12 |
| Electrical goods | | | | 10 |
| Furniture, etc. | 10 | 5–7 | | |
| Furs | | | | 10 |
| Groceries | | 10 | | 10 |
| Hardware | 7–9 | | | 10 |
| Hotels | 8–10 | 9 | | 9 |
| Theatres | 8–10 | 9 | | 8 |
| Movies | | 12 | | 8 |
| Trunks and bags | | | 12 | |
| Candy | | 10 | 10 | 7 |
| Pianos, phonographs | | | 15 | 6 |
| Teas and coffees | | | | 3 |

1. Mark Levy, How to Determine Rental Values, *Chicago Realtor*, July, 1923, p. 26.
2. C. C. Nichols, Jr., How to Pick Locations, *Forbes*, August 6, 1921, p. 29.
3. Frank S. Slosson. How to Select Tenants for Business Property, *Chicago Realtor*, November, 1923, p. 24.
4. McMichael and Bungham, City Growth and Values, 1923, pp. 16a, 16b.



check up what these percentages of rent to retail sales actually include. In most cases they probably represent the amount paid by the tenant to the landlord under varying conditions. It seems quite certain that the landlord who receives some of the high percentages indicated in this table, must meet such expenses as taxes, repairs, insurance, and depreciation. It is also quite possible, as in the case of millinery, hosiery, and furs, that the rental rates indicated may be for the leased departments in retail stores, in which case the rental rate may include not only the customary charges as enumerated before but also heating, lighting, cleaning, accounting, delivery, and other retail services.

**Rentals Reported by the Harvard Bureau of Business Research.**—The reports of the Harvard Bureau of Business Research and other consumer research organizations are based on the carefully worked out experiments submitted by a large number of retail dealers in all parts of the United States. It may be presumed that these figures are not only accurate but fairly representative. For the most part they are the reports of independent stores rather than of chain stores and most certainly include many independent stores occupying medium and poorer locations as well as the better locations which characterize chain store activity. In view of these conditions, it is possible that the average rental charges reported by the Harvard Bureau of Business Research should be somewhat lower than the rental charges indicated by the real estate specialists quoted in the accompanying table.

**Rent Paid by Various Retail Businesses.**—Retail grocery stores, according to the Harvard Bureau of Business Research, have rents that average from 1% to 2% of sales. Grocery stores usually have limited trading areas and do not require as high rent locations as do such stores as deal in shopping, novelty, or fashion goods which must draw trade from larger areas and must have good central locations.

The rents in retail grocery stores tend to decline as the sales volume increases. The highest grocery store rentals in proportion to sales are to be found among those stores having very low sales and many stores that enjoy a specialized business of high-class, high-priced goods, comparable in a sense to perishability and novelty of fashion and shopping goods.

The rent in retail meat markets runs somewhat higher than in grocery stores. The average rentals in smaller cities as reported by the Bureau of Business Research of Northwestern University amount to 1.3%; in the larger cities such as Cleveland, Chicago, and New York, the rentals amount to from 2.1% to 2.7%.

Rentals of retail shoe stores average from 2.6% to 4.5% with a decided tendency to increase on passing from smaller to larger cities but showing a tendency to remain about the same for businesses of the same volumes.

The lowest rentals appear to be found in concerns having a volume of from $30,000 to $50,000 a year. Stores having sales below $30,000 average somewhat higher, as do those whose sales are above $50,000 a year.

The rentals in jewelry stores average from 4% to 5% and more of sales. Among the figures presented by the Harvard Bureau of Business Research there appears to be no trend such as found in other retail stores of increasing rentals as the sales increase or of increasing rentals on passing from smaller to larger cities. However, the number of retail stores (35) reporting to the Harvard Bureau of Business Research is probably too small to permit a sound conclusion upon this point.

It did appear, however, in the reports of the Harvard Bureau of Business Research that rentals among retail jewelry stores change from year to year in a way indicating the dependence of the retail jewelry business on the trends of fashion, thus in 1919, a good jewelry year from a fashion standpoint, the average rentals amounted to 3.7%. In the following two



or three years jewelry sales declined. Many types of jewelry passed out of fashion and use completely. In consequence, rentals in 1920 amounted to 4%, in 1921, 5.8%, and in 1922 4.8% of sales.

Many retail men's clothing stores range from less than 2% upward to 5% of sales. The lowest rentals are to be found in the smallest cities and the percentage of rental according to the study made by the Bureau of Business Research of Northwestern University increases directly as the size of the city from 1.8% up to 3.5%. An exception appears however in that retail clothing stores found in cities of over 200,000 population average 2.8%, a decided decline from the 3.5% in the cities of from 120,000 to 200,000 population.

Rents for men's clothing stores also show a decided tendency to increase as the sales volume increases. Stores having a sales volume of less than $100,000 show an average of 3.4%. There are gradual increases as the sales grow so that concerns enjoying a volume of more than $1,000,000 average 4.7%.

Rentals among retail hardware stores show definite trends to increase on passing from smaller towns to larger cities and also to increase as the volume increases. These trends are brought out very clearly in the thorough studies reported annually by the National Retail Hardware Association. In this report retail hardware stores are classified according to the sizes of the cities in which they are located and according to their volumes. The number of stores is adequate to provide a fair picture of actual conditions.

Rentals in department stores range from 2% to 5% for those stores reporting to the Harvard Bureau of Business Research. For 1927 rentals amounted to 2.8% for those having sales of less than $1,000,000 a year and 3.4% for those having sales over $1,000,000 a year.

The detailed facts concerning the amounts of rentals in proportion to the sales volumes of various classes of retail stores are brought out in Table 3.

# CHAPTER VII

## THE RETAIL STORE BUILDING

A good location for a retail store offers the possibility of getting a good profitable trade provided all of the other conditions of effective retailing are supplied. First among these conditions is a suitable building. Much progress has been made in retail store architecture during the past generation but the understanding of the profitable effects of properly-built retail stores, suited to their purpose, is still in its infancy. Only in relatively few cases has truly scientific thought been given to the construction of buildings that actually help to make the most of the locations occupied and help to sell goods. Widespread, intensive study of retail building is yet to come.

The retail store building should be expressive of the ideals and character of the business conducted within. It should also harmonize with the particular classes of goods carried and must suit the particular trade to which the business caters. It should combine beauty with the highest utility and efficiency. Obviously it should provide proper space for safeguarding the merchandise against damage or loss and, at the same time, provide the most effective conveniences for selling. A well-planned retail store building should aid in keeping the expenses to a minimum. It does this by reducing waste motions and undue handling of goods as well as by eliminating waste in time of selling and of customers.

**Changes in Fashions in Retail Architecture.**—Retail store buildings, like much of the merchandise that is sold within, are subject to fashion. The out-of-date retail store may be as much of a drawback to the sale of its goods as are out-of-





date goods therein. From the standpoint of the student of the history of retail architecture, there has been a most interesting series of changes in the accepted styles of store building.

Not until the latter part of the nineteenth century and the early part of the twentieth century were distinctive types of retail architecture, as different from other architecture, developed. Retail store buildings were generally more or less like dwelling houses, town halls, churches, and other types of buildings then commonly constructed. The dwelling-house type was most frequent. In fact, many, if not most, retail shops were parts of residences. Early retail shops were commonly conducted on the ground floors of buildings in which the shop-owner and his family lived at the rear or on the floors above. It was not until after the middle of the nineteenth century, when large general merchandise stores began to appear, that this custom of combining retail shop and dwelling house began to give way. Such combinations of retail stores on the ground floor with living apartments above are, however, still the general rule among small shops.

**Colonial Period, Up to 1800.**—Prior to the Revolutionary War, the people in the American colonies generally followed the current English fashions in architecture as well as in other arts. Domestic colonial architecture, which constituted the basic type of architecture for retail shops as well, is sufficiently familiar to most students to make a description of its characteristics unnecessary here. Throughout the eighteenth century there was in England a very active interest in building novel and, at the same time, attractive shop fronts. During the periods of the reigns of George I and George II, English shop architecture reached a very high level of art. These early English shop fronts, which were copied from England by shopkeepers in the larger cities of America, were generally characterized by the use of as much window space as possible. Windows were constructed with small panes of glass such as

were also used in the homes. Fan-shaped windows over the doorways were common. The windows of the shops were frequently projected outward toward the street either as overhanging, oriel windows or as bay windows. Signs, sometimes projecting several feet streetward, hung out over every shop. These signs were usually fastened by hinges to rigid rods attached to the building over the doorway. As the hinges on these signs grew rusty they squeaked and squawked for attention in every breeze. The lettering on these signs as well as on the windows and on the frieze above the windows was generally very well done.

The fine shops were, of course, to be found in the larger cities only. In the smaller towns, country villages, and trading posts, the retail stores were much cruder in construction. In fact, the pioneer retail stores were very often but little more than buildings set up to protect the goods from damage and loss until they could be sold. Generally, however, after communities had passed through the pioneer stage, retail stores were made as attractive to prospective customers as possible. In attempting to secure a pleasing appearance, the builders of the stores generally followed the dominant architectural fashion of the time as well as they could, whether that happened to be Georgian colonial, Dutch colonial, or post-colonial styles.

**Classic Influence, 1800-1830.**—During the first quarter of the nineteenth century, American architecture was dominated by classic ideals. Public buildings, churches, and private homes were built in the styles of Greek and Roman temples. Ionic, Doric, and Corinthian columns, porticoes, and low-pitched roofs were characteristics of buildings in all parts of the country. There was a particularly rapid development in the South during this period due to the success of the cotton growing industry. New plantations were opened up in great numbers and new buildings were erected on both old and new plantations. These buildings, many of which are still standing, fixed the character of Southern architecture for nearly a hundred years. Retail stores established during this early period followed the classic fashion as closely as possible in the use of porches, classic columns, and pilasters attached to the front of the buildings. These pilasters ornamenting the buildings were either half-round or square, either plain or fluted, and were fitted with Greek capitals and bases.



**Romantic Gothic, 1825-1850.**—During the latter part of the 1820's and early 1830's, the people of the country began to tire of the classic style of building. A period followed of considerable experimentation, much of it of such character as to defy classification or even description. Artistic construction declined and no outstanding style secured general adoption, with the possible exception of Gothic types which were introduced to some extent in churches and public buildings and which to a slight extent influenced domestic architecture and, consequently, retail stores. Gothic windows, doorways, and turrets appeared in considerable number in retail store buildings of this period.

**Western Pioneer Stores.**—The rapid development of communities west of the Allegheny Mountains necessitated a rapid building of retail stores as well as of other types of construction. These early homes and stores were generally very crude log cabins or buildings built of rough lumber. It was in such crude surroundings that Lincoln did his storekeeping. Late in this period, retail stores began to erect high, impressive-looking two-story fronts but with only one story of building behind them. The more commercially-minded retailers of these early days went farther, however, and developed the advertising value of these high fronts by painting on them the firm's name in large letters, and perhaps a list of the lines of merchandise handled. Windows during this period were apparently usually considered as of no value except for admitting a certain amount of light to the store. In the small towns

and country districts they were little used for display purposes. This was a period of very rapid territorial development and the demand for goods in most communities was so strong that no special attention seemed to be necessary to methods of sales promotion and display such as had been common before and have since been effectively used.

**French Influence, 1850 to 1870.**—The period in store architecture described above was followed in the 1850's by a renewal of interest inspired very largely by French models and designs. During this period students of all forms of art were attracted to the developments in Paris and other parts of France under the rule of Emperor Louis Napoleon and Empress Eugénie. French styles began to dominate the fashions in all arts. French architectural influence was manifest in the United States as well as elsewhere. Public buildings, fine residences, and the larger retail stores were constructed in the styles of the new French buildings such as the Paris Opéra House, the Bon Marché and the Louvre department stores, and many other important buildings. One of the many characteristic details that received attention in the French architecture of this time was the general adoption of what was known as the mansard roof, dormer windows, an increased use of glass, of cast iron grill work, and of cylindrical cast iron columns. During the 1860's and 1870's a large number of homes and retail stores in the United States were constructed with mansard roofs and very often with cast iron grill work railings on the roof and at the coping at the foot of the mansard roofs as well.

It seems probable that it was in this period that retail stores in this country first began to be constructed with recessed fronts and doorways. During all previous times in American history, store fronts, when not constructed on a direct line with the street, projected into the street as in the colonial period, either in the form of bay or oriel windows.



**Victorian, Gothic, and Queen Anne, 1870-1895.**—During the latter part of the period in which the French influence dominated American domestic and retail store architecture, as outlined above, other styles of building came into use. During the 1870's and 1880's, considerable interest developed in Gothic styles and also in Middle English or "Queen Anne" types of buildings. As had been the case during the second quarter of the nineteenth century numerous buildings continued to be constructed in nondescript styles impossible to name. All of these styles of architecture, the French, Victorian, Gothic, and the Queen Anne, constructed during this period, were generally much decorated with elaborate ornamentation consisting of heavy overhanging eaves, copings, cornices, rococo, and gingerbread fret and grill work, cupolas, bay and oriel windows, as well as interesting experiments in recessed fronts which have been so highly developed in the modern retail store architecture of the last thirty years.

**Romanesque, 1880-1900.**—During the 1880's, a new architectural influence, known as Romanesque, began to be expressed in retail store building as well as in dwelling houses, churches, town halls, and other public buildings. Round, turreted and battlemented walls with pinnacle roofs, shallow-arched windows, and doorways were common. These buildings were usually constructed of red or brown stone or brick or combinations of the two. With this form of architecture show-windows became larger and the use of plate glass for retail store windows became established.

**Neo-Classic, 1895-1910.**—At the opening of the twentieth century, the Victorian, Gothic, Romanesque, and the Queen Anne types of architecture had lost their appeal and interest. New store buildings, both large and small, began to be constructed on lines suggestive of classic or Renaissance styles. The department stores constructed in the late 1890's and early 1900's practically all exemplified elements of classic styles in

their use of columns, the architecture of the doorways and windows, and the general outlines of the buildings themselves.

**Bungalow Shops, 1905-1915.**—The wide popularity obtained by the bungalow in domestic architecture during the period from 1905 to 1915 had its influence over retail store building in many places. Stores followed the bungalow style as nearly as they could. Grocery stores, ready-to-wear, millinery, sporting goods, and many similar lines gave this style of building a trial.

**Early English, French, and Spanish, 1915 to the Present.**—During the past ten years, retail store architecture in the suburbs and small towns has moved very strongly toward adaptations of both Tudor and Georgian English, provincial French, and Spanish or Italian styles, again corresponding in a close degree to the types of construction used in domestic architecture. Since 1928, many smart shops dealing in perfumes, women's fashion goods, shoes, millinery, and so on, have followed the rising tide of interest in *art moderne* construction. Architecture is an art whose products last a long time. Buildings once constructed usually stand until torn down or destroyed. When the popular demand for millinery changes, hats that have passed out of fashion disappear, but not so with buildings. They remain for years, decades, and even scores of years after the taste for such construction has passed away.

In long reaches of time, however, the older styles of building are gradually torn down, displaced, or rebuilt to assume the forms of current architectural fashions. Such changes are most rapid in locations of great value. Rebuilding in downtown sections of most large American cities occurs every thirty or forty years, but centers of high location value often change. Trade moves to new districts. The old locations become deserted by the fashionable, so the buildings of a bygone fashion may remain intact, but neglected, gaunt, ghostlike forms of former activity and value.



**Retail Stores Often an Epitome of Architectural History.**—One may go to almost any American city and date its history step by step back to its beginnings by taking note of the type of architecture of its buildings. An interesting eastern city, like Bethlehem, Pennsylvania, founded in the 1760's, presents examples in its dwelling houses and even in its retail stores of every type and period of architecture described above from 1760 down to the present. A mid-west city of moderate size like Superior, Wisconsin, founded in the 1860's, quite naturally, began its architectural history with homes, public buildings, and stores with mansard roofs, French windows, cupolas, bay windows, and other indications of the French influence of those years. In a number of the suburbs established from 1905 to 1910 the older buildings are of the bungalow type, while in the village and town developments since the World War the trim lines, the sharp gables, the latticed windows, the interesting use of timber and stucco as well as of brick and lumber, indicate the strong revival of eighteenth century English influences.

In this way almost every community presents to the eye of the student an architectural history in actual examples of each period from the time of its founding down to the present. The more recent retail store buildings usually house the smarter shops and the department stores. The older buildings are used by the concerns doing business in staple goods, low-priced lines, bargain merchandise, and second-hand goods. Farther down the scale, retail store buildings, once in the height of fashion, are used as factories, shops, and warehouses, and still farther down come wrecks of former retail glories, boarded up, vacant, awaiting some demand at any rent or price.

The lack of any fundamental notion of retail store architecture apart from the architecture of other business buildings and domestic construction may account for the somewhat dependent development in the retail store field. Most retail buildings outside of chain store institutions have been constructed

by individual owners, usually with the help of local architects who together worked out the concrete expression of whatever architectural idea may have been current in their communities at the time. Such expressions have often included special features, such as the campanile on the Daniels & Fisher building in Denver, Colorado, the rotunda in the Emporium in San Francisco, the massive columns at the front of B. Altman & Co., New York, the supersized display windows in Marshall Field's in Chicago, and the magnificent stairways in the A. T. Stewart building, part of the Wanamaker store in New York.

**Trends in Department Store Architecture.**—Recent large store architecture has apparently taken three trends. First, there are buildings expressing the utmost simplicity in line and decoration but at the same time great solidity, conservatism, and permanence such as B. Altman's in New York, Wanamaker's in Philadelphia, Marshall Field's in Chicago, and Bullock's in Los Angeles.

Second, there is a group of stores in which the effort has been definitely made to embody considerable expression of architectural art such as Wm. Filene's Sons Co. in Boston, and Lord & Taylor, New York, both in the Italian Renaissance style, and Saks Fifth Avenue, New York, in late English Renaissance. Other stores expressing fine architectural style and beauty of one period or another include Selfridge & Co. and part of the building occupied by Liberty & Co., both of London, both representing classic Greek inspiration; the Louvre of Paris, one of the best representations of mid-nineteenth century French architecture; Wertheim's of Berlin, one of the earliest department stores to express the modernistic note in architecture; the Tietz stores and the Karstadt stores in Berlin and other German cities embodying great beauty in architectural outlines, in some cases modernistic; Harrods in Buenos Aires, Argentina, is a store of fine beauty as is also Mitsukoshi, the largest department store in Tokio, Japan. Recent buildings such as Bullock's Wilshire Boulevard building in Los Angeles, Stewart's in New York, the Bon Marché in Seattle, Strawbridge & Clothier in Philadelphia and Abraham & Straus in Brooklyn embody highly modern architectural art. (See Figures 17 and 18.)



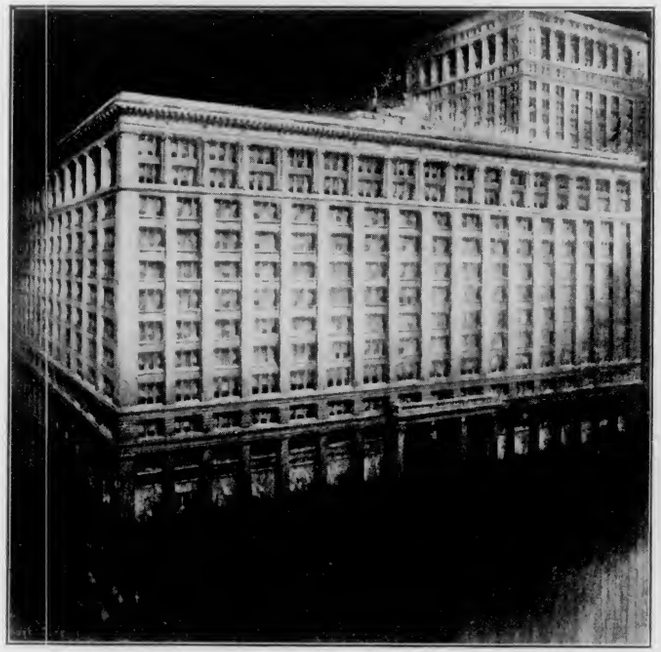

Figure 16. Marshall Field & Company, Chicago
Men's store in background.

A third type of department store buildings has been constructed with the utmost thought given to operating efficiency and economy in the use of space such as R. H. Macy & Co. in New York; L. Bamberger & Co. in Newark; the J. L. Hudson Co. in Detroit; Stix, Baer, Fuller Co. in St. Louis; and Meier

INTENTIONAL SECOND EXPOSURE



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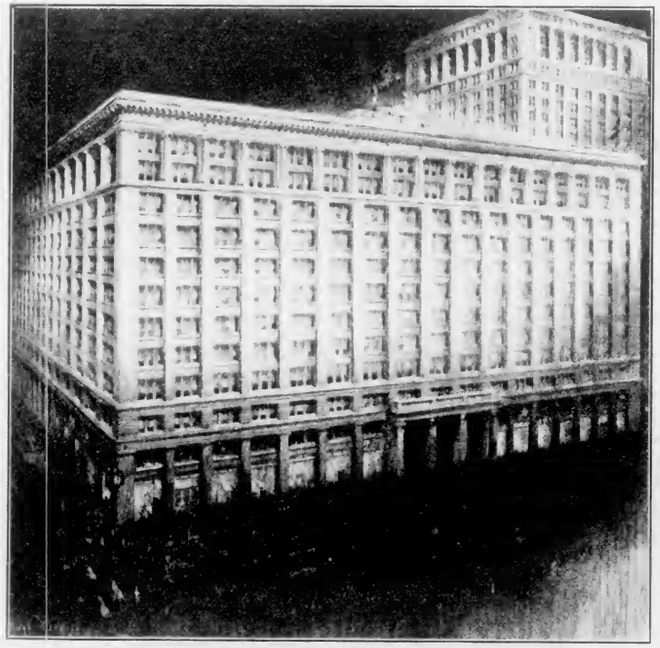

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Figure 17. The Bon Marché Department Store of Seattle, Washington
Good illustration of modern retail store architecture.





& Frank's in Portland, Oregon. All of these are exceedingly practical business buildings plainly constructed with a maximum of window and display space but with a minimum of style expression in the buildings themselves. These buildings may be considered as representative of the highest technical advance so far reached of the engineer working in cooperation with the merchant to secure the utmost utility from highly expensive city locations.

**Considerations in Building a Retail Store.**—A retail store building requires as careful planning as any type of construction that exists. Even small store buildings may be greatly improved by proper plans. Larger stores, however, require the utmost care in planning in order, for one reason, to insure the

Figure 18. Architect's Illustration of Strawbridge & Clothier's New Store, Philadelphia, to be completed in 1933
One of the first department stores to use the set-back type of architecture.

inclusion of all necessary details at the start so as to avoid as many changes as possible after the building has been constructed. The primary purpose of a retail store building is, of course, to provide an easy, convenient, and pleasing place for the sale of goods. To carry out this general purpose a great many items must be given consideration.

**Incoming Goods.**—Space must be provided for receiving incoming goods, including driveways, unloading platforms, receiving rooms, space for opening and checking goods, space for marking and handling goods, together with adequate office space for the store traffic manager.

**Outgoing Goods.**—Places for parcel wrapping and change making need to be planned as parts of the sales floor or floors. For the proper handling of goods that are to be delivered there needs to be a central wrapping and assembly room, together with space for distribution by various forms of delivery such as freight, express, parcel post and delivery trucks, and special provision for crating and packing of goods such as furniture, and easily damaged goods such as china, glass, lamps, musical instruments, and so on. As a part of the space required for delivery there need to be driveways, loading platforms and conveying systems, together with adequate space for the housing, care, repair, and supervision of the delivery equipment.

**Comforts and Conveniences for Customers.**—A store building must provide adequate space for rest rooms, waiting rooms, and telephones. If the store plan includes a soda fountain or restaurant, additional and proper space is needed for the kitchen, refrigerator, and so on.

**Conveniences for Employees.**—A store employing a number of people needs adequate locker space, lunch and recreation rooms, rest rooms, and hospital, and suitable space for the activities of personnel department, including interviewing, hiring, and training of employees.



**Heating and Mechanical Equipment.**—In addition to adequate space for present equipment used in heating and operating, the possibilities of growth and expansion of the retail store demands that foresight be exercised in providing excess space that may be utilized for these purposes. Perhaps at no point has the growth of a retail business encountered greater internal difficulties than in securing additional necessary space for these necessities. Retail store building engineers usually urge at least a 50% excess of space over present requirements in order to take care of future possibilities.

**Elevators, Stairways, etc.**—One of the most fundamental requirements in modern retail stores is easy entrance and exit to all departments for customers and for the store's own people as well. Nothing hampers retail service on upper floors so much as inadequate elevators and stairways. Getting customers to go above the first floor is always a problem. There is probably no part of store construction in which economy can be less profitable than in elevators. Several large stores in the metropolitan centers have installed escalators or moving stairways for use on the first three, four, or five floors above the main floor. In addition to the provisions of elevator and stairway space adequate for present needs, thought also needs to be given to the possible expansion of the business and the addition of more elevators with such expansion. The difficulty of installing additional elevators unless space has been properly planned at the time of construction of the building, is obviously very great. Escalators are more expensive than elevators but require less service when installed. It may be possible to do away with attendants by the use of escalators. Modern department store elevators embody both great speed and safety.

**Lighting.**—One of the most important principles that has impressed itself upon retailers during the past few years is the necessity for adequate store lighting. A generation ago both retail display windows and store interiors were in general

badly lighted. By degrees retailers here and there learned the value of increasing and improving the lighting. Department stores in metropolitan centers led the way but the practice has since spread to other types of stores, none of which have used it more effectively than chain stores. Independent retailers have generally been very slow in seeing the need for better lighting. For years, it has been practically possible for any observer in almost any American city to point out the chain stores without reference to names, signs, or kinds of merchandise carried, but solely by the greater brilliance in window and interior lighting used by the chains.

Poor lighting is still the rule in most retail stores rather than the exception. The lighting is either too bright and glaring or too dim. There is often too much lighting in some parts of the store and entirely too little in other places. Lights are often so poorly placed that customers and salespeople work with their own shadows over merchandise.

Good lighting in a retail store accomplishes several important results among which may be mentioned:

1. It adds attractiveness to the merchandise.
2. It permits closer and more accurate inspection of merchandise and thereby helps to cut down returns and exchanges.
3. It provides a cheerful atmosphere which reacts favorably on both salespeople and customers.
4. It gives an impression of cleanliness, neatness, and progressiveness.
5. It makes it possible to use effectively every foot of floor space.
6. It attracts trade from poorly lighted stores.
7. It stimulates evening window-shopping.

Good lighting is not only essential in poor locations but even more effective in expensive locations. A store may have a highly accessible location and very desirable merchandise but still fail for lack of proper lighting to give the merchandise an opportunity to be seen.



Good lighting means enough light to permit easy examination of merchandise without the slightest eye-strain. It means uniform steady illumination, absence of glare, and elimination of shadows. Most important of all, it contributes to the attractive appearance of the store.

The lighting requirements of a retail store are matters of scientific determination. There need be no guessing by the well-informed merchant or building engineer as to these points. The best lighting under all circumstances is daylight or that which most nearly approximates daylight. It is impossible, however, for many stores to secure a sufficient amount of daylight, even during the middle of the day in all parts of the sales floor, to make it practicable to rely on daylighting alone. In nearly all large stores and also in many small stores some artificial light is required all of the time; and artificial lighting is, of course, necessary for dark days, late afternoons, and evenings.

Combinations of daylighting and artificial lighting do not usually work out well. Artificial lighting is generally so weak and pale in comparison to daylighting that glare and shadows result. Many retail stores, especially department stores, have found it necessary to drape their windows in such a way as to soften daylighting on bright days or even to block out their windows entirely and depend upon electric lighting at all times.

Lighting engineers measure the adequacy of lighting by the number of watts per square foot of floor space and by the number of foot-candles of illumination. By a foot-candle is meant the intensity of a light of a standard candle of a certain size at the distance of one foot. The intensity of illumination can be measured at any time or place by means of a foot-candle meter. Every big store should own one. Small stores should borrow one for occasional use. Opinions vary as to the

degree of illumination desirable in different parts of the store and for different goods. The variations are due to differences in emphasis placed upon efficiency of lighting and economy. It is possible to get along with much less light than the amount considered most efficient. According to illuminating engineers, retail sales floors require from 5 to 15 foot-candles of light. The lower limit is probably based on a too strong desire to economize. For most stores, best results are obtained from an illumination of from 8 to 12 foot-candles.

In order to secure this degree of illumination, electric lights, sufficient in number and in power, are installed. Varying amounts of wattage are required to supply the standard desired degree of illumination measured by foot-candles, depending upon whether the walls and ceiling of the room are light or dark, whether the ceilings are high or low, whether the fixtures are heavy colored or not, and to some extent upon the degree of auxiliary lighting from show-case lamps, daylighting, and so on. Because of these differences in surroundings and probably because of lack of proper general appreciation of high standards of lighting, considerable variation is found in the practice of American stores.

In a survey made in 1927 of 186 department stores, the lamp wattage per square foot was found to range from .63 to 2.11, with an average in some of the best stores close to 1.27 watts per square foot of floor space on the first floor. It was assumed in this investigation that the average of 1.27 watts represented the most satisfactory degree of lighting, and that retail stores providing less than this average were to be considered underlighted, while stores providing more than 1.50 watts per square foot of floor space were to be considered as overlighted.[1]

In addition to the proper wattage, a retail store must also give careful consideration to proper spacing of the lights so

[1] Paul Behles, Electrical Illumination During Daylight Hours, in the Bulletin of the National Retail Dry Goods Association, October, 1927.



as to secure uniformity of illumination. The best practice seems to favor a rule that overhead lamps should not be farther apart than 1½ times the distance from the floor to the lighting fixture, and in no case more than 20 feet apart unless column lights are used. Lighting fixtures are usually hung so that the tip of the glass globes range from 9 to 10 feet from the floor. Thus fixtures should be located about 13½ to 15 feet apart.

It is also essential that lighting fixtures should be so constructed as to be easily cleaned and provisions should be made to insure regular periodical cleaning and renewal of electric bulbs. No matter what the registered wattage provided by lamps, if the globes and bulbs are not kept clean the degree of illumination will suffer. The amount of light given out by a lamp also declines with use and age, so that, to secure the proper efficiency of illumination, renewals are necessary before the lights are actually burned out.

Lighting fixtures provide an excellent opportunity for artistic decoration of the store. It is possible to secure lighting fixtures that fit in with any type or period of architecture or interior decoration carried out within a retail store.

Electric lighting systems are classified as direct, semi-direct, or indirect, depending upon whether the rays of light from the lamps used fall directly or are transmitted in part through translucent globes and in part reflected to the ceiling and then in turn deflected downward, or, finally, whether all of the light from the lamps is reflected upward to the ceilings and then diffused downward and in all directions.

Direct lighting is, of course, the cheapest but is also the least satisfactory since the sources of the light, the lamp bulbs, are visible and therefore tire the eyes. Indirect lighting in which the light is all reflected upward to the ceiling and then diffused downward is the most expensive. Unless powerful enough to provide adequate lighting, indirect lighting is likely to give an insufficient light for proper display and examination

of goods. Semi-direct lighting with artistic translucent half-sphere globes is most frequently used in present-day stores. Through this method store lighting may be not only pleasing but adequate and economical.

All three forms of lighting are in use in retail stores. Direct lighting gives an excellent amount of light on the sales counters for a given amount of power. Indirect lighting provides the greatest diffusion and softest of illumination, while semi-direct lighting gives the entire store the utmost degree of brightness.[2]

The cost of retail store lighting varies according to the communities, that is, according to the cost of electric current, but also to a considerable extent according to the efficiency of store lighting arrangements. It has been found possible to secure effective lighting in large department stores at a cost of less than 5 cents per square foot per year. This, however, is unusually low. Current consumption of about 1.27 watts per square foot on main floors having 17-foot ceilings, and of .75 to 1.00 watts per square foot on upper floors having from 12- to 14-foot ceilings are ordinary standards of use.

**Ventilation.**—The ventilation requirements for a retail store as well as for all other public buildings are that there should be a circulation of fresh air through the store of not less than 50 cubic feet per minute per person. Inasmuch as the number of people within a retail store varies greatly during different parts of the day and from day to day, ventilation engineers sometimes take as their standard allowances four times the amount of air required by the number of salespeople in a salesroom. This is a conservative standard for busy stores.

It is likely that retail stores will follow the examples of

[2] The subject of lighting for retail stores is thoroughly discussed in the following publications: A. L. Powell, Lighting for the Modern Store, Edison Lamp Works, General Electric Company; J. R. Colville and C. E. Weitz, Lighting Designs for Stores, National Lamp Works, General Electric Company; W. Harrison and C. E. Weitz, Illumination Design Data for Industrial and Commercial Interiors, National Lamp Works, General Electric Company.



moving picture theatres in providing artificial cooling systems to lower the temperature of their salesrooms during periods of hot weather. A beginning has been made in this direction. During the summer of 1929, R. H. Macy & Co. of New York established an air-cooling system for basement and first floor.

**Office Space.**—Many retail stores of all sizes have inadequate office space. This is the result of purpose in some instances, for there are many department store managers who feel that office work of all kinds is unproductive and at best merely a necessary evil. Under such management office space is cut down to the barest minimum. It cannot be denied that there is much ground for this view. There are stores in which the rental for office space runs beyond all reasonable bounds. Scientific retailing, however, certainly cannot progress very far without adequate office work and record keeping. There must be a happy medium in use of space between those stores that cut down their office space to the minimum and others which allow too much.

Suitable office space is required for the executives of the concern and for the accounting department. The space provided for the records needs to be suitably protected against fire, theft, or damage of any kind.

Finally, in planning a retail building, adequate space must be provided for workrooms such as must be conducted in connection with a retail business. These range from suitable quarters for the advertising and display departments to alteration rooms serving the customers in the store's merchandise departments and work shops in which necessary repairs and equipment may be made for the store.

**Construction Materials.**—All of the principal building materials used in the construction of other types of building are to be found in retail store construction. In the building of permanent structures for retail trade purposes, the practice is growing of using either steel frame or reinforced concrete

with the exteriors of terra cotta, limestone, marble, granite, or brick, or combinations of these materials, such as terra cotta with brick or terra cotta with stone. The objection to other building materials such as wood or metal is that they require frequent paintings and renewals if they are to be kept in good order.

In either the steel frame or reinforced construction the weight of the building is carried in the columns and girders and not by the walls, which merely supply partitions. Internal walls are usually constructed of concrete, hollow tile, or composition materials with suitable plaster or cement facings.

**Fireproof Construction.**—Great progress has been made in recent years in building construction in securing fire-resistant and fireproof effects. The difference in costs between fireproof construction and the more common semi-fireproof types of buildings amounts to from 12% to 15%, which may appear as a very important item in the first cost of the building but which is readily absorbed in a few years by reduced fire insurance rates and also by the lower depreciation on these types of buildings.

TABLE 18. ESTIMATED AVERAGE COST OF BUILDING CONSTRUCTION[3]

| On Land Valued per Front Foot | Construction of Buildings | Height of Buildings | Cost of Building per cu. ft. |
|---|---|---|---|
| $ 200 | Ordinary brick | 2 story | 8 to 10 cents |
| 300 | Ordinary brick | 3 story | 8 to 10 cents |
| 500 | Ordinary brick | 3 to 4 story | 8 to 10 cents |
| 800 | Ordinary brick | 4 to 5 story | 12 to 20 cents |
| 1,000 | Slow-burning | 5 to 6 story | 12 to 20 cents |
| 1,500 | Slow-burning | 5 to 6 story | 12 to 20 cents |
| 2,000 | Tending to fireproof | 7 to 9 story | 18 to 25 cents |
| 3,000 | Tending to fireproof | 7 to 9 story | 18 to 25 cents |
| 6,000 | Skeleton steel, fireproof | 10 to 12 story | 30 to 50 cents |
| 15,000 | Skeleton steel, fireproof | 12 to 20 story | 30 to 50 cents |
| 18,000–35,000 | Skeleton steel, fireproof | 20 to 30 story | 30 to 50 cents |

**Column Spacing.**—The location of supporting columns within the store has received considerable attention.

[3] From R. M. Hurd, Principles of City Land Values, 4th, ed., 1924, p. 103.



There is much difference of opinion as to proper spacings of columns. In the first place much depends on the type of store, the goods to be sold, and the number of people who are likely to be in the store at any one time. Retail institutions catering to popular trade in large cities which have enormous traffic problems must have wide aisles, particularly through the main traffic channels of the store. Wide aisles permit the location of open sales tables whenever desired. For small stores there are advantages in having narrow aisles. This permits the display of a greater amount of merchandise and gives the appearance of stockiness, whereas a wide aisle store without crowds presents a very unfavorable, lonely impression.

During the last few years the distances between columns have been greatly extended. Current store architecture usually provides column spacings ranging from 16 to 30 feet, with most stores averaging column distances of about 20 feet each way. Column spacing is highly important in order to secure adequate arrangement of store fixtures and proper widths of aisles both for salespeople and for customers. For example, columns that are spaced 20 feet apart permit of counters or display cases lined up with columns and an 8-foot aisle in between. A narrow aisle table may be placed in this 8-foot aisle but better aisle sales table arrangements can be secured when the aisles are wider, and this means that the columns must be more than 20 feet apart. In some stores column distances run 24 to 26 feet apart.

Columns are sometimes placed 18 feet apart in one direction and 20 feet in the other, but the best engineering practice seems to favor columns placed in squares about 24 feet apart in either direction.[4]

**Problem of Building a Store.**—The problem of building a retail store of any size in any modern community is indeed

[4] From bulletin issued by E. P. Behlis & Co., "Department Store Planning Construction Tips."

complex. It calls for a knowledge of the needs of the retail business of the kind that is to be conducted in the building in addition to the problem of selection of proper building materials and methods of construction to secure the best results at the most economical costs. As has already been indicated, there is the very important consideration of selecting a style of building to give to the store the character and atmosphere that will be in keeping with its business as well as with the spirit of the times.

In no branch of architecture is there need for such degree of specialization of knowledge and ability as in the retail field, and there is probably no field of architecture in which such specialization is more lacking. The fact that retail stores have generally been planned by individual owners rather than by professional architects is clearly evident from the misfit, nondescript, poorly planned, unartistic oddities of construction housing the retail business in most American communities. Certainly the first step toward better retail building is the employment of professional architects who specialize in retail store construction.

After the plans of the retail store are completed, there are probably more varieties of contractors and workmen required to complete the store than almost any other type of commercial architecture. The services of a competent, well-organized, general retail store building contracting concern are necessary to secure the coordination of the many varieties of specialized work to be performed, including excavation, framework, actual building, roofing, glazing, plumbing, lighting, heating, ventilation, refrigeration, installation machinery, elevators, pneumatic tubes, sprinklers, floor materials, fixtures, and so forth. More than a score of skilled trades, including carpenters, electricians, plumbers, masons or bricklayers, glaziers, and workers in tile, marble, bronze, and sheet metal, are called upon to perform services even in a small store.



**The Importance of the Architect's Plan.**—The architect's plan, carefully prepared, provides not only for the skilful use of space in the sale and display of merchandise but makes provision in every detail for the modern conveniences required in all parts of the building, such as proper location of radiators which will not interfere with display or stock fixtures or any of the necessary activities of the store. Provisions need to be made in the original plan for the installation of plumbing in all places where it will be required, such as separate washrooms for men and women employees, separate washrooms for men and women customers, and washrooms for private offices. In addition to these there are needed plumbing connections for other possible uses such as drinking fountains, circulating ice water, slop sinks, automatic sprinklers, fire stand-pipes, and, in stores having soda fountains, tea rooms, barber shops, or beauty shops, plumbing connections are needed for all of these activities, including plumbing facilities for the kitchens in cases where there are restaurants or tea rooms.

Similarly, detailed and careful thought needs to be given to the proper location of electrical lighting fixtures for the interior of the store, the show-windows, outside electric signs, show-cases, interior displays, and electric call systems. There should be wall or floor plugs for motor connections such as vacuum cleaners, cash registers, fans, fire alarms, clocks, floor lamps, electrical goods, adding machines, and other equipment in the accounting department, and for hair dressing, beauty, and barber shops, work shops, and so on.

The building should also plan to save later expenses and vexatious delays by including provisions in the original plans for the location of gravity chutes, if they are to be installed, of pneumatic tubes, gas connections, and telephones both for house use and public use. Considerable savings can be made by having all of these items properly indicated in the original plans, and an expert retail building architect may be able to suggest many ways in which economical results can be secured

such, for example, as having one set of electric main conduits serve two floors by locating in the ceiling of the first floor and extending its branches upward for the second floor.

**The Store Front.**—The first is the most important impression of store buildings as of individuals. The store front should extend an invitation to the public to enter. So far as possible it should suggest the character of the business. It may not always be possible to carry out this suggestion literally. For example, a department store offers many kinds and classes of goods. The appeal of the department store is more or less universal. The best that the building can do is to suggest by the character of building, not the kinds of merchandise handled, but the class of goods carried whether of high, medium, or low-price, and whether of good or medium qualities. The best store architecture usually suggests solidity, dignity, and honesty.

Small shops that handle but few lines of goods may make much more distinctive use of their building fronts in the service of their business. A great many individually owned stores have carried out this idea effectively. The chain stores have likewise given careful consideration to the possibility of making store fronts effective. The Woolworth 5 and 10 cent stores are not only distinctive but characteristic of their businesses as well. The Great Atlantic & Pacific grocery stores likewise appeal effectively to the wide public making up their clientele. The Thom McAn shoe shops have capitalized their opportunity by devising an exceedingly attractive store front embodying a bit of artistic humor in inviting the public to come in to buy good smart shoes at $4 a pair. Other concerns such as Wise Shoes Incorporated and Bedell's in New York have followed the current vogue into modernistic architectural details to a marked extent.

**The Doorway.**—Quite naturally, the entire lower part of the store facing the street, or as much of it as can be spared from columns and supports is utilized for doorways and display space. A generation ago, it was believed necessary to have as many doors as possible leading into a store. If a store occupied a corner, there was almost always a door on the corner. Both of these ideas have been given up. The doorways should be inviting, easy to enter and on a level with the streets. Steps leading up or down from the sidewalk to the store doors detract



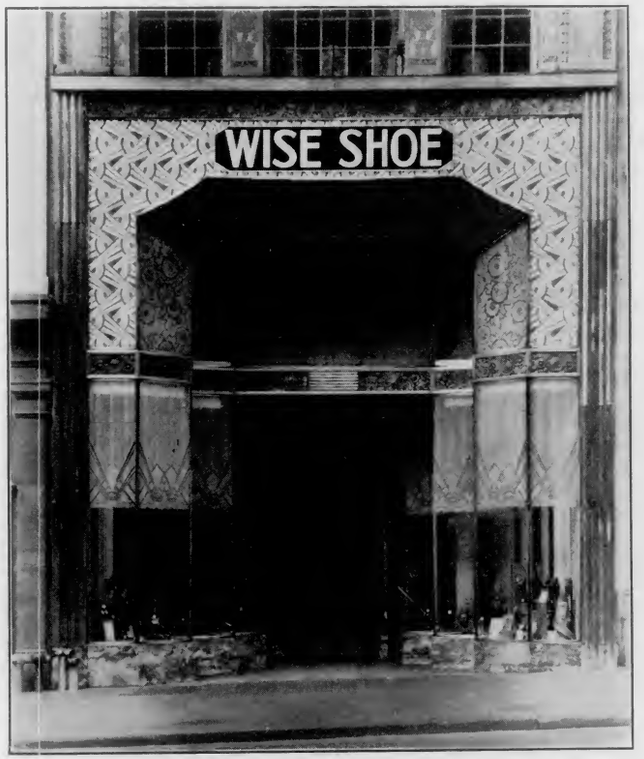


Figure 19. Modernistic Front of the Wise Shoe Store, Fifth Avenue, New York

Photograph courteously supplied by Grand Rapids Store Equipment Corporation.

INTENTIONAL SECOND EXPOSURE



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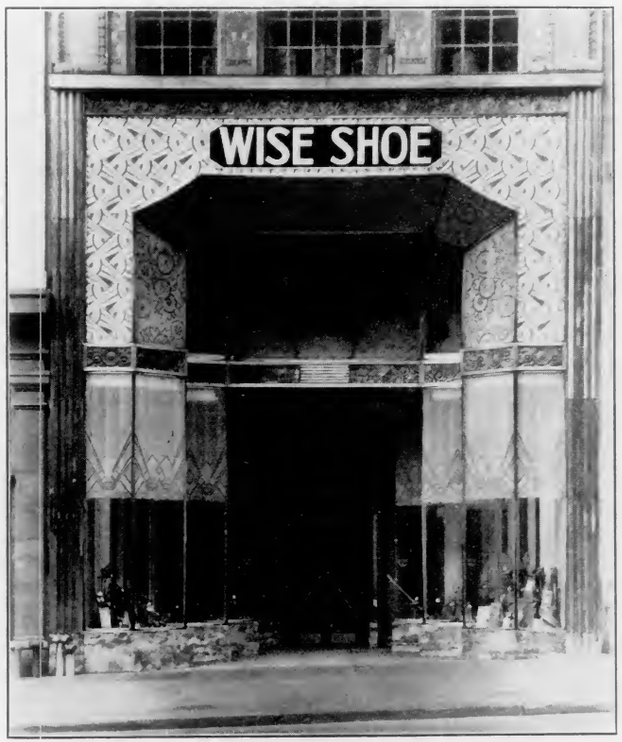


Figure 19. Modernistic Front of the Wise Shoe Store, Fifth Avenue, New York

Photograph courteously supplied by Grand Rapids Store Equipment Corporation

Figure 20. Front of Bedell's "Cathedral of Fashion," 34th Street, New York. Distinctly modernist in architectural treatment

Photograph courteously supplied by Grand Rapids Store Equipment Corporation.

to a considerable extent from the value of the location. Sloping surfaces leading to the doorway are likely to be slippery in wet weather, and therefore uninviting and perhaps dangerous. The doorways need to be planned so as to eliminate congestion by securing easy through traffic. Incoming merchandise, freight, parcels, and so on, require separate entrances. For the colder sections of the country special provisions are needed during the winter time, such as revolving doors. These are the most economical from the standpoint of saving the building's heat but involve a certain amount of danger. Many stores using them have found it necessary to employ door tenders to supervise the movement of people passing through. A better but more expensive alternative is a combination of outer and inner doors with a commodious heated vestibule between. The selection of doorways is a problem for the architect and building engineer.



**Window Display Space.**—The window display space is almost invariably the most valuable advertising medium that the store possesses. In the many comparisons of results obtained from the use of windows in relation to other forms of advertising of every kind, the results from window displays always rank very high. The modern store plan must make every provision to secure as much window display space as the width of the building facing the street will permit. There are differences of opinion as to whether such window display space should be divided up into units or consist of continuous glass fronts. No general conclusion can be stated. Continuous windows utilize space most fully. Unit windows, however, offer certain advantages, such as ease of preparing attractive displays, permitting the display of as many different classes of goods as there are units, and require no window dividers such as are often used in the long, continuous windows.

Because of the importance of window display to the success of the retail business, the importance of properly planned windows cannot be overestimated. Details of such planning will include a study of the proportions such as of length to width and to depth. The height of the wall under the window from the sidewalk level to the bottom of the window is another important matter. Provisions for preventing moisture condensation or frosting also need to be made. Most retail store buildings constructed a generation ago made poor use of their possible opportunities for display windows. They usually allowed walls and columns to block a good share of the store

INTENTIONAL SECOND EXPOSURE



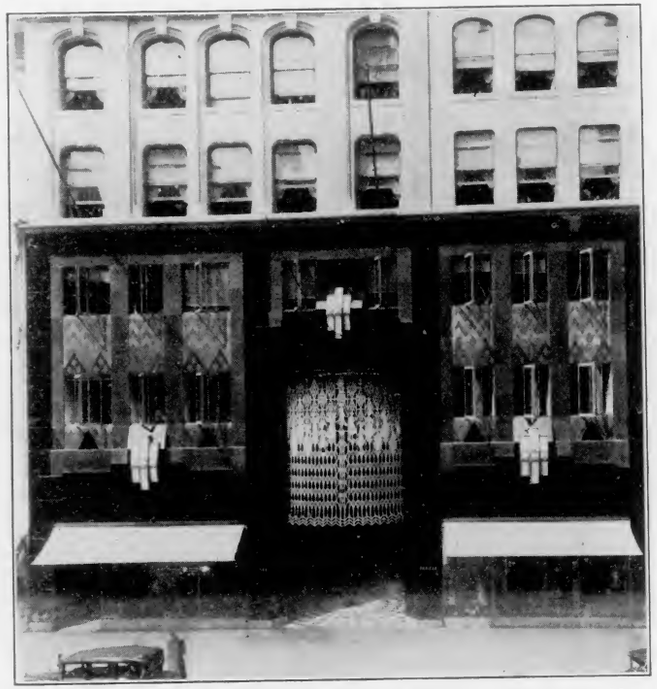

Figure 20. Front of Bedell's "Cathedral of Fashion," 34th Street, New York. Distinctly modernist in architectural treatment

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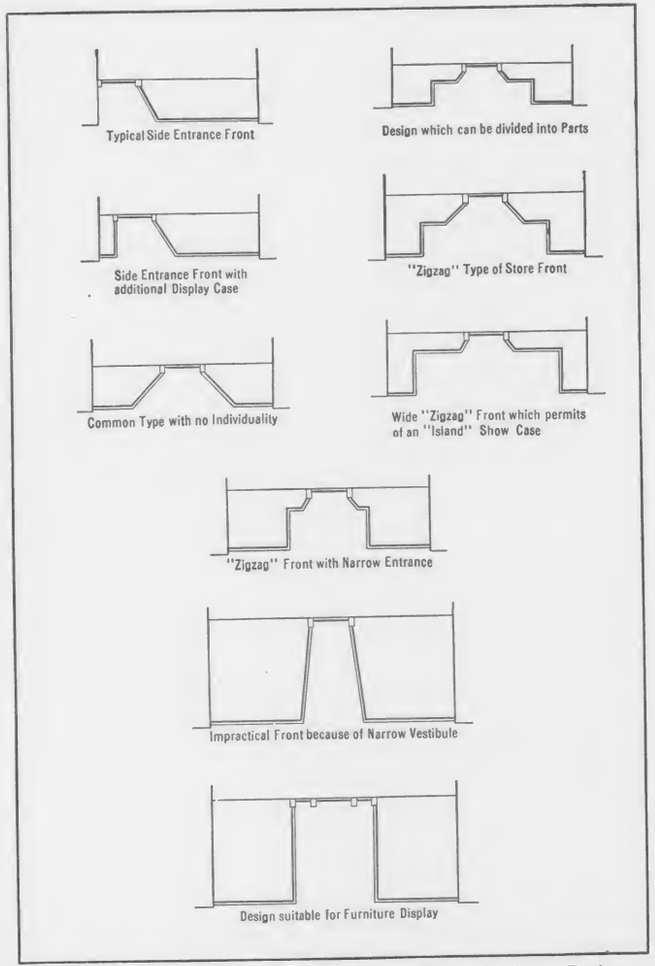


Figure 21. Basic Store Front Types from Which All Other Designs Are Elaborated

From *National Hardware Bulletin*, April, 1916.



front and, therefore, secured but a minimum amount of space for display purposes. Modern stores go to the opposite extreme in giving the entire store front to glass display space and to doorways.

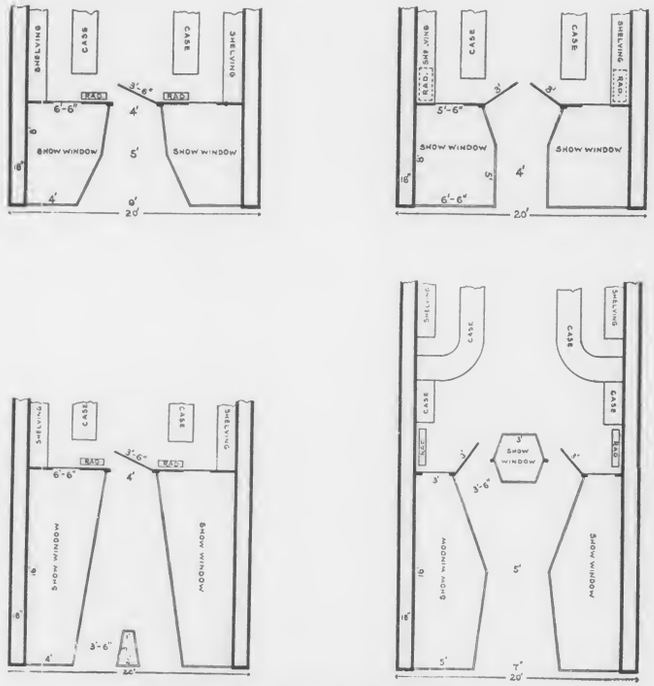


Figure 22. Store Fronts for 20-Foot Frontage

Show window, vestibule, and fixture arrangement. Illustrations in Figures 22 to 27 are adapted from drawings presented in *Dry Goods Economist* at various times during recent years.

**Illustrations of Store Fronts.**—The accompanying diagrams give illustrations of a variety of store fronts of various sizes indicating the location of doorways and the proportionate amount of display space. Some of these diagrams represent

rather old types of building construction. Many new and original building fronts have recently been devised securing exceedingly novel effects and undoubtedly increased interest on the part of passers-by who are possible customers.

**Height of Ceiling.**—The height of ceiling in a retail store depends to some extent upon size of floor. The larger the floor

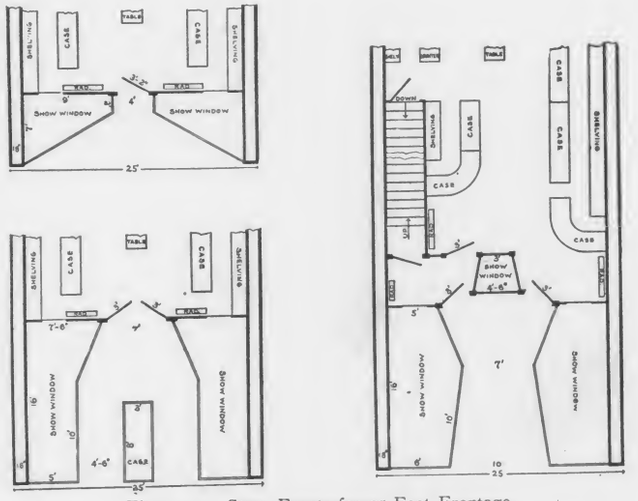


Figure 23. Store Fronts for 25-Foot Frontage
Show window, vestibule, and fixture arrangement.

the higher the ceiling should be. In department store practice, ceiling heights ranging about 17 feet are common. Stores in which there are mezzanines or balconies in the first story range from 20 to 22 feet. The usual maximum height of ceiling on the first floor in American department stores is about 24 feet. One building, Gimbel Bros. in Pittsburgh, has a ceiling height of 30 feet, the highest in the country.

The ceiling heights on floors above the first also depend



upon the size of the room but usually run considerably lower than the first floor. A 15-foot ceiling height on upper floors is considered quite high. A more common height is from 12 to 14 feet. This represents, perhaps, the ceiling heights best adapted to small stores as well.

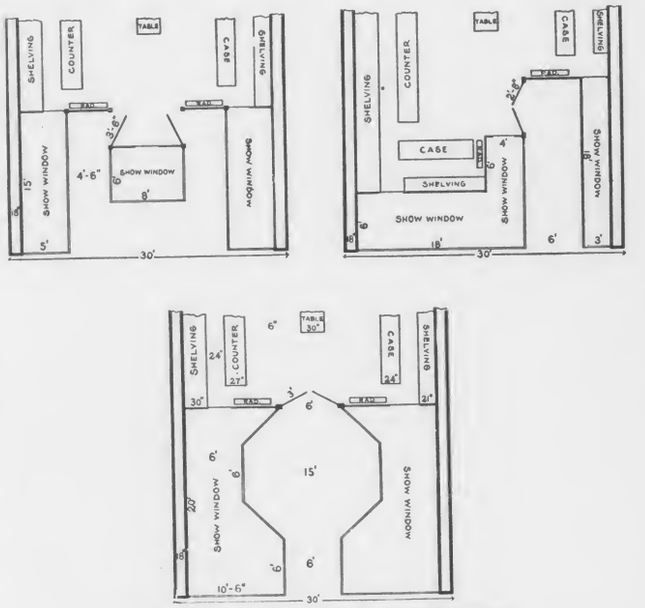


Figure 24. Store Fronts for 30-Foot Frontage
Show window, vestibule, and fixture arrangement.

The advantages of high ceilings are, of course, better ventilation, less noise, and better lighting. The cost of building construction, however, is generally computed on a cubic foot basis and the higher the ceiling the higher the cost of building. Where building costs are a very serious consideration the ceiling heights are sometimes reduced, but this is accompanied

by the danger of having poor store ventilation, poor lighting, and much more noise.

**Flooring.**—Retail store floors should be exceedingly durable, not easily damaged, easily cleaned, and pleasing in appearance. They should not be slippery. Their first cost as well

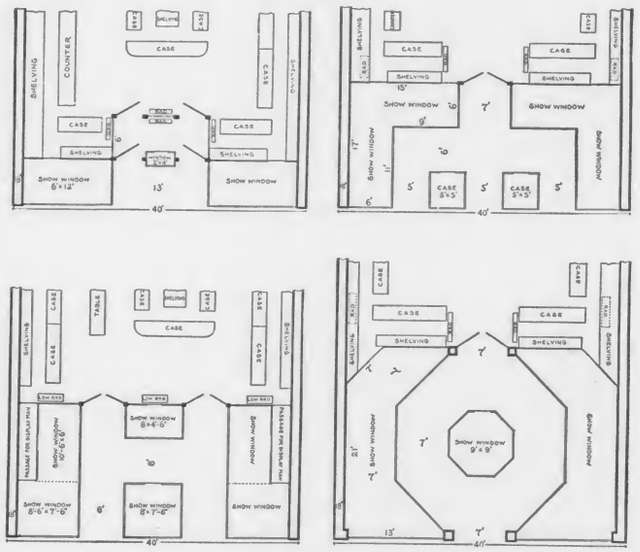


Figure 25. Store Fronts for 40-Foot Frontage
Show window, vestibule, and fixture arrangement.

as their upkeep is, of course, an important consideration. A wide variety of materials is available for use in retail store flooring, among which the following are most frequently found.

*Granite* is the hardest and most durable material available for flooring purposes. It is used in some cases for thresholds and stairways, but only in a very limited way in retail store construction.



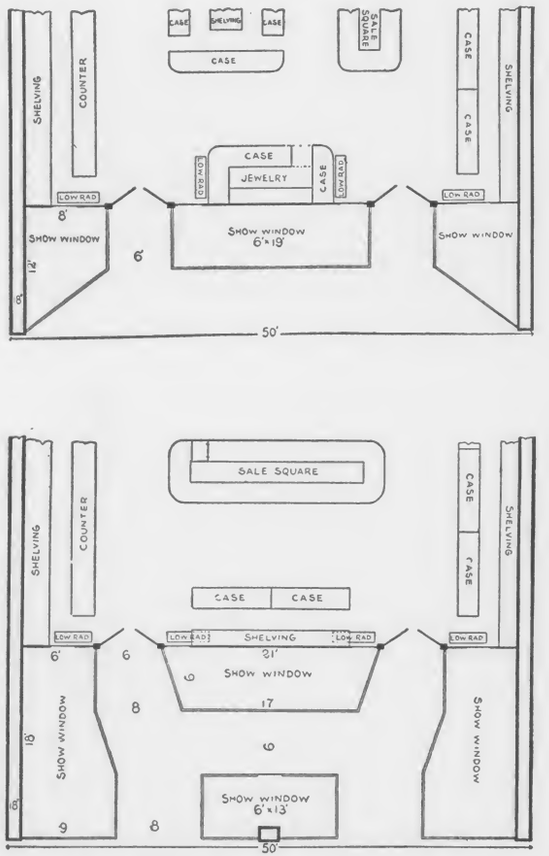


Figure 26. Store Fronts for 50-Foot Frontage
Show window, double entrance, and fixture arrangement.

*Marble*, ranging from 7/8 to 1¼ inches thick, is deemed the best floor material for department stores and other high-class retail stores having heavy foot traffic. Marble is hard and wear-resisting and is less noisy than most other floor materials.

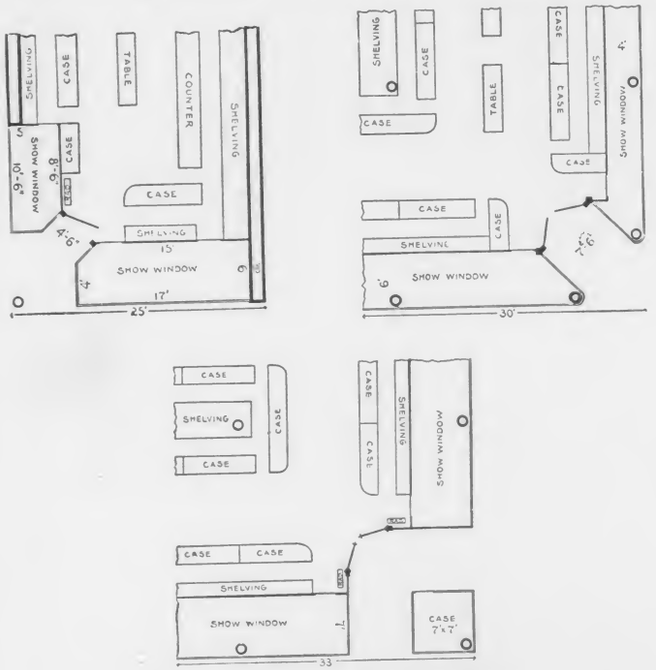


Figure 27. Store Fronts for Corner Stores
Plans showing corner entrance and show windows.

It is sanitary and its beautiful appearance is such that people hesitate to throw waste material upon it.

There are many varieties of marble, both foreign and domestic, used in retail store construction. Foreign marbles come mainly from Italy, Greece, France, and Spain. There are

Figures 28-32. Unique Designs of Shops
Hot Dog Stand, Los Angeles (Photo by Underwood & Underwood). Ice Cream Freezer Parlor, Los Angeles (Photo by Underwood & Underwood). "Guest House" Little Shop, Rockford, Ill. "Big Cone" Ice Cream Shop, Los Angeles (from *Chain Store Review*, September, 1928). The Brown Derby Restaurant, inspired by the 1928 Democratic Nominee for the Presidency, Los Angeles (Photo by Underwood & Underwood).

INTENTIONAL SECOND EXPOSURE



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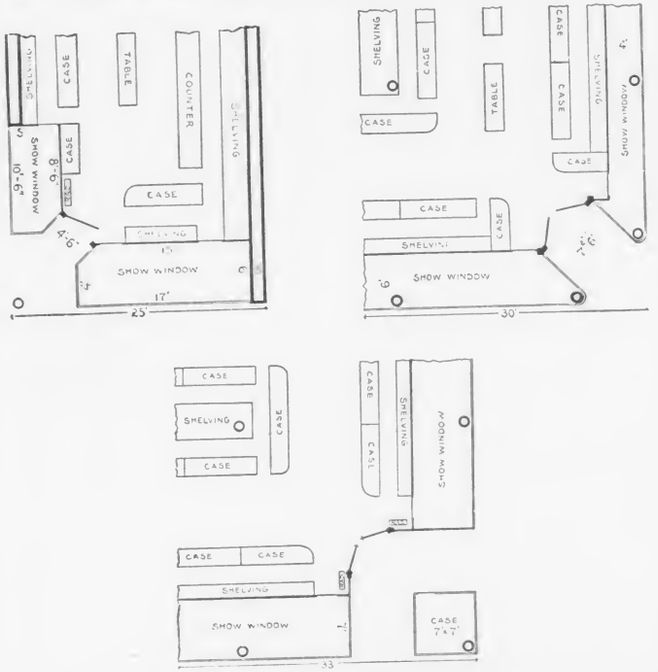


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many kinds of marble known by name from each country. Domestic marble comes mainly from Tennessee, Vermont, Georgia, Alabama, and to some extent from New York and Virginia. Foreign marbles usually cost from $2 to $4 per square foot while domestic marbles cost about half of that.

Marble is most frequently used on first floors and occasionally on basement floors. Its main objections are its high first cost and its tendency to slipperiness when wet. The long life of a marble floor, said to average 25 years or more, tends to cut the average cost per square foot per year considerably. In comparison with other floor materials, however, marble remains a high-priced material.

*Slate* tiling or flagging and slate steps are sometimes used in retail stores. Their cost is somewhat less than marble. Their appearance, however, is not comparable to marble or other high-class floor materials.

*Travertine,* a porous, usually yellow or gray-tinted rock, quarried in Italy and also in Florida, has during recent years become a very popular flooring material. While somewhat soft when first quarried, it hardens continuously after exposure to the air and under use. It is usually laid in slabs 1¼ inches thick. Its cost is slightly less than for marble. Its average life is also about the same. Travertine is not so slippery as marble when wet. It is not noisy.

*Vitreous tiling* is another highly wear-resisting floor material used in retail store floors. Tiling may now be obtained in a wide variety of plain and fancy colorings. Its cost is considerably less than either marble or travertine and, as it lasts as long, it is somewhat more economical. Care must be used in laying to secure even floors. Tiling requires a good bed of cement and sand. Usually old wood floors must be removed before tile is laid.

*Cement* floors are extremely economical in comparison with other flooring materials, but it has not been possible to make them as attractive in appearance or as comfortable in use. They are generally dirty and dusty-looking.



A special composition, such as *terrazzo,* laid in plain slabs or with brass strips, is a very popular flooring material not only in department stores but also in drug stores, soda fountains, men's clothing stores and restaurants.

Terrazzo is composed of marble chips mixed in cement and spread over the floor over which the brass strip dividers have already been arranged. The surface is next rubbed down by electric machines which bring out the bright faces of the marble chips. The process takes time. When laid without the brass strips it sometimes goes onto the floor in precast tile forms in the same way as tile.

There are also variations of terrazzo-like materials known by various trade names, as *granolithic* and *marbleoid* floorings. The makers of these flooring materials claim that they have very high durability and that they are very easily kept clean. They look much like travertine or even marble, but cost less. They are generally light-reflecting and make the average store much lighter. They are quiet, non-slippery, and resilient, and since they are obtainable in many colors are highly decorative.

Terrazzo and other composition floorings are laid in much the same way as cement floors. The makers claim, however, that it is unnecessary to tear out old floorings, and that these compositions can be laid on top of old boards or on concrete, and that they will provide an absolutely smooth-surfaced fireproof flooring. Some of these compositions set so quickly that they can be laid at night and are hardened sufficiently to permit use the next day. There is an almost unlimited range in colors and color effects possible through the use of these materials.

Real terrazzo, as indicated above, costs about half as much as travertine. Cheaper compositions laid 1½ inches thick average from 30 to 60 cents per square foot and have a life of from ten to fifteen years.

*Wood.* Wood floors are usually of oak, maple, or yellow pine. Oak floors are available in quarter-sawed material laid parquet or in strips. All boards are also laid in regular courses matched together at the edges. Flooring boards are usually ⅞-inch thick but for retail stores are often 1⅛ inches thick. The cost of wood floors varies with the market for lumber. In general they are almost as expensive as the composition floors described above. Their life is about the same. Wood floors are no longer considered desirable for heavy traffic floors in retail stores but are much used wherever carpeting or rugs are also used as, for example, in millinery and apparel shops and in women's apparel departments in department stores. Oak flooring has a limited use in men's and boys' clothing and furnishings shops and departments. Maple is frequently used in hardware, house furnishings, luggage, sporting goods, and other similar stores and departments. Pine, which is considerably cheaper than either oak or maple, is often used as a substitute and particularly where covered by carpets.

*Rubber, Cork, and Linoleum Tile.* Tiling made of rubber, cork composition, or of linoleum is frequently used as a flooring material at the entrance to elevators and on stairways, where it must stand a great deal of wear but where it may be easily replaced when worn out. All three are fairly expensive. Rubber tiling runs from 60 to 80 cents per square foot, cork tiling from 40 to 50 cents per square foot, and heavy linoleum slightly less than rubber. All three are nearly as expensive as terrazzo and the other better-grade composition flooring materials. Their life, due to their composition as well as the heavy use to which they are put, is not quite so long. Their appearance is not to be compared to terrazzo or other higher-priced flooring materials, but they are generally quiet, resilient, and less slippery, and therefore useful for the places indicated. They are not suited for damp places. All are likely to be slippery when wet.

*Battleship Linoleum.* Much progress has been made in recent years by linoleum manufacturers in producing heavy linoleum of high quality and long durability as well as of very pleasing designs and color combinations. Linoleum, ¼-inch thick, usually called "battleship linoleum," is available in beautiful marbled and other colorings which are in every way equal to the appearance of any of the composition floorings. The cost is considerably less. It is resilient, quickly installed, easily cleaned, and quiet. Linoleum floorings are very popular in chain stores, restaurants, barber shops, and many other types of stores. Linoleum in a variety of tile designs and marbled effects is frequently used as a flooring in display windows. While extremely durable under ordinary conditions, it serves best when laid over deadening felt and cemented down to the felt. It also requires some care in cleaning. Strong alkalis and caustic soaps eat into its surface. It must be cleaned with mild soap suds. It is also improved by an occasional waxing and polishing. The cost of a good linoleum floor is about the same as for a pine wood floor.

Besides the regular ¼-inch battleship linoleum, this type of floor covering comes in thinner construction at lower prices. Where long durability is not an object these lighter grades are available.

The cheapest floor covering available is not a linoleum at all but a felt paper with a heavily painted and printed surface, known as "felt base" floor covering to distinguish it from the true linoleum which is backed with jute fabric or burlap. Felt base floor covering gives excellent service if laid on a level surface. It is made in a multitude of colorings and designs, hence may be of very real beauty. However, it is not to be compared in durability to the other materials mentioned.



**Ceilings and Walls.**—The main point of importance concerning the ceilings and the walls in retail store architecture is that they should be as simple and as plain as possible. A flat ceiling is much better than an uneven ceiling since it permits

better diffusion of light, and better ventilation as well as better appearance. Ornamentation sometimes used in walls and ceilings adds to the expense of cleaning. Interior decoration should be provided by means of fixtures, displays of merchandise and decorative materials which can be readily put up or taken down, rather than made a part of the permanent architecture of the interior of the store. No matter what the style of decoration may be, its degree of desirability is certain to change, and a plain, simple background of wall and ceiling is a much better basis than any type of permanent decoration. White or neutral tints are preferable since these do not in any way affect the appearance of the goods on display. Strong colors, on the other hand, do this. Moreover white or light neutral tints lighten the store and aid in the reflection and diffusion of light.

**Basements and Upper Floors.**—One of the greatest difficulties of retail store architecture as concerns buildings utilizing more than one story is how to get prospective customers beyond the first floor. Observation of the movements of crowds generally indicates that half or more of the people who enter a retail store never go beyond the first floor. Various devices must be planned to secure traffic distribution throughout the building, such as careful location of popular departments of convenience goods, putting rest rooms and restaurants on upper floors or in the basements. The layout of aisles and the convenience of location and efficiency of service of elevators and escalators is of the first importance as are also the location of stairways. A conveniently located stairway built with due regard to proper dimensions of risers, treads, and safety handrails, if not congested, will be used by some people in going from one floor to another in preference to the elevators. As a point in favor of the installation of escalators it has been urged that people using them get a view of more departments of merchandise than they would by taking elevators or stairways.



**Building Should Attract Customers.**—Finally, the retail store building, whether large or small, should probably be given more thought than has usually been given in the past to customers' conveniences, such as adequate rest rooms, toilets, drinking fountains, and so on. Old-fashioned stores failed often in these respects. Within reason, the retail store should provide every architectural convenience to make visits of prospective customers pleasant, easy, and comfortable. The customer's convenience should be the first consideration in every step in store building.

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# CHAPTER VIII

## INTENSIVE USE OF THE STORE INTERIOR

A retail store is a selling machine which, like any other machine, functions best when most properly designed and put together. The object of store planning and design is to get the most out of the available space not only in sales and net profits but also in satisfactory service to customers.

The ideal store building begins with a plan or layout providing for all of the functions that are to be performed within the store, and finally, enclosed by the walls and roof. That this is not an impractical ideal has come to be generally recognized, for apart from the need for careful location of all functional departments in a retail store, modern requirements for built-in plumbing, wiring, automatic sprinkling systems, tubes, and so on, make such preliminary planning of the layout an absolute necessity.

Rapid progress has been made in interior planning of retail stores. There are certain fundamental principles of store planning which, if observed, help the store to perform its services more successfully and profitably. In store planning as in many other details, the greatest contributions to our present knowledge of scientific layout have been made by the department stores and the chain stores. Proper planning of the store may not be less important to a small independent merchant but the necessity has never been so obvious as in the large store, often covering many floors, with a multitude of departments.

Chain stores have carried the analysis of proper layout to a fine point. Most chain store systems have worked out standardized layouts used in all of their units. Obviously, the





most careful thought is necessary to this subject among chains. A mistake in the floor plan affecting a single individual store may not be such a serious consideration, except for the individual who owns it or manages it, but a mistake in the layout applied in 1,000 stores is a fatality of such consequence as to merit every possible means of prevention.

All chain stores, therefore, give careful consideration to store layout and planning. Some of them have special layout departments; a number maintain model stores in which all experimental work is conducted before executive action takes effect. Recently a number of wholesalers have established model stores, not as a means of controlling the planning or layout of their retail customers but as a means of suggestion and education.

Store layout and planning is relatively a new profession. In many respects it partakes of the nature of engineering. It deals with functions and work to be done, with suitable equipment for the performance of that work and with measurements of spaces needed. Actual store layout, outside of the chain store systems and some of the largest department stores, has been the concern mainly of the owners and managers of retail businesses who have, under the stress of necessity, given a part of their time to the problems of store planning. This has frequently resulted in the necessity for extensive alteration, vexations, regrets and losses in business.

Specialists in layout, serving the general retail trade, have but recently come into existence. The work of the general architect, under whose supervision store layouts were formerly created, has in many cases proved as disappointing as the work of the amateur store owner or store manager. With the development of the profession of store planning and layout, these conditions are rapidly changing. A specific knowledge of the principles underlying store layout, based on the experiences of stores with their customers, is an essential to modern retail

store building. While there are, and probably always will be, individual differences in conditions preventing any general application of a single prescription, the principles of store planning are now fairly well-defined and seem to be of such general application that they can no longer be neglected on the basis of the argument that "My store is different."

**Classification of Retail Functions for which Space Must be Provided.**—The following outline presents by title a list of the retail functions for which space must be provided in the retail store layout. It must not be assumed that the detail presented here on non-selling activities as compared with the descriptions of merchandising and selling functions in any way represents the relative amount of space required by these departments. The amount of space required for selling functions should in every case be greater than required for non-selling, but the requirements vary from time to time. The general increasing tendency to hand-to-mouth buying that has prevailed since 1920 has resulted in cutting down the amount of space required for reserve stockrooms. The increasing tendency to build remote warehouses, delivery stations, and other workrooms has helped to give the stores proper more selling space. Growing interest in and analysis of better layout has resulted in more economical use of space for many of the functions as well.

Many of the items included under non-selling are peculiar to certain types of retail business and not common to all. For example, alteration rooms are required only in retail stores dealing in ready-to-wear, clothing, furs, and so on. Manufacturers' departments are sometimes entirely absent from retail stores or confined to small repair departments requiring but very little space. Many of the provisions for public convenience are also optional and in some cases applicable to certain types of retail institutions only. The following list is intended to be suggestive only.



FUNCTIONS FOR WHICH SPACE MUST BE PROVIDED IN THE RETAIL STORE LAYOUT

a. SELLING
   1. Regular departments
      Lines to be handled
   2. Special sales in bargain departments, bargain counters, squares, islands, etc.

b. NON-SELLING
   1. Receiving and marking
   2. Stockroom—reserve stock
   3. Internal delivery
      Sales recording, change making
      Inspecting and wrapping
   4. External delivery
   5. Alteration rooms
      Clothing, furs, etc.
   6. Manufacturing rooms
      Rugs made to order
      Repair departments
      Jewelry, engraving watches
      Mirrors
      Picture frames
      Umbrellas
      Hosiery
      Handbags
      Hats to order
      Oculists
      Draperies and curtains
      Upholstery
      Glove cleaning
      Photographs
      Fur storage
   7. Office space
      Accounting and control
      Administration
      Credits and collections
      Advertising and display, sign writers, window trimmers
      Personnel—employment, school, records
      Purchasing supplies
   8. Public conveniences
      Aisles, stairways, elevators, and escalators
      Public rest rooms, toilets, writing rooms
      Post office

Check room
Stylist, clothing consultant, toilet goods consultant
Auditorium
Fashion shows, entertainments
Checking baby carriages
Children's play rooms
Instruction in arts and crafts
Rug making, lamp shades, painting, etc.
Toy and children's book advisory service

9. Employees' space
Locker rooms
Rest rooms, toilets, hospitals
Library
Lunchroom
Recreation room

10. Engine room, boiler room, heating plant
Machine rooms, carpenter and paint shop

**Variations in Value of Space in Different Parts of Store.**—One of the most outstanding facts about retail store space is that it varies in value. Due to the habits of customers to move in certain directions, traffic channels are developed. Some parts of the store are visited by many more people than other parts. The opportunity for making effective displays and producing sales is naturally much greater along these traffic routes than in the less frequented parts of the store. In consequence, any square foot of space within the store does not necessarily equal any other in value. In fact certain spaces within a store, because of sales and profit-making possibilities, may be worth 10 or even 20 times more than other spaces of similar dimensions.

The front of the store is naturally the most valuable part. The window space ranks first and highest. The departments nearest the entrance come second, and so on back through the store. This is true, largely because it is so difficult to get customers who enter the store to circulate far beyond the entrance. In many stores a large proportion of the people who enter never go beyond a radius of about 50 feet from the entrance. As a consequence of the wide variation in the value



of the space within a store, it is a well-fixed principle that the rent burden should not be distributed among all departments directly on the basis of the number of square feet occupied but should instead be prorated in some relation to these differences in value.

A line of merchandise enjoying a certain sale in a moderately good or even a poor location usually secures an increase in sales on being moved to a better location within the store. The following illustration may be considered as typical. A men's shoe department in a department store, located in the back of the store away from all main traffic channels, enjoyed a stationary volume of business over a period of several years. On being moved to the front of the store near the main entrance its sales volume tripled during the first year following the change and continued to show important gains thereafter. There were no other outstanding or important contributing causes to this increase in business than a change in location.

While all lines of goods would probably show some rate of increase on being moved from a poor to a better location within a store, there is reason for believing that not all lines of goods would show the same rates of increase. There are some goods, such as common staples and household necessities, which do fairly well even if located in the poorest space in the store. These would show some gain on being moved to a better space but the gain would not be as great as in other classes of goods, particularly novelties, concerning which customers know but little and which would not be purchased were they not prominently displayed. As a result, the first problem in proper layout of merchandise departments is to discover what lines of merchandise will produce the best results from the various locations within the store.

That floor space within a store varies in value with its distance from the front has been recognized by tax experts for many years in the assessment of real estate values as applied

to lots of varying depths from the street line. All municipalities, by one method or another, compute equitable assessment of city lots of varying depth. Much study has been given to this problem by various tax experts, with the result that several assessment systems have come into use, differing somewhat in detail and in methods of computing values but all aiming at the same thing.

The following table (Table 19) summarizes the variations in value of space as the distance from the street line increases. Note should be taken that in all of the assessment systems described in this table, using a lot 100 feet deep as the standard, the first 10 feet are valued at 25% of the total lot. The first 20 feet have a value, according to all of these systems, of about 40% of the total, and the front half of the lot is worth about two-thirds or more of the whole 100 feet. Now, what is true for the lot is also true for floor space constructed on the lot, and if these percentages are fairly representative of changes

TABLE 19. VALUE OF CITY BUSINESS LOTS OF DIFFERENT DEPTHS
(Based on a Percentage of the Value of a Standard Lot 100 feet deep)

| Feet Deep | Hoffman-Neill Rule | Newark Plan | Cleveland or Somers Plan |
|---|---|---|---|
| 100 | 100.00% | 100.00% | 100.00% |
| 1 | 6.76 | ..... | 3.1 |
| 5 | 17.32 | ..... | 14.35 |
| 10 | 25.98 | 25 | 25.0 |
| 20 | 38.99 | 41 | 41.0 |
| 30 | 49.47 | 54 | 54.0 |
| 40 | 58.49 | 64 | 64.0 |
| 50 | 66.67 | 72 | 72.5 |
| 60 | 74.20 | 80 | 79.5 |
| 70 | 81.70 | 86 | 85.6 |
| 80 | 87.73 | 91 | 90.9 |
| 90 | 94.01 | 96 | 95.6 |
| 100 | 100.00 | 100 | 100.0 |
| 125 | 109.00 | 109 | 109.0 |
| 150 | 117.00 | 121 | 115.0 |
| 200 | 130.00 | 133 | 122.0 |



in value for the one they may also be considered so for the other.

**Illustration of Operation of Value Differentials.**—For purposes of illustration let us consider the effect of these value differences on a floor plan of a store with 50 feet front and 100 feet depth all devoted to selling space. Let it be assumed that the rental rate for this space is $4,000 a year and that the net sales volume is $100,000 a year. The rental rate is, therefore, 4% of net sales. On a flat square foot basis without regard to differences in value of the different parts of the floor space, the average rental amounts to 80 cents per square foot. The fallacy of applying a rental charge so computed against the various departments located on this sales floor may be seen from the following figures adapted from the table just presented.

DISTRIBUTION OF RENTAL BY SPACE DIVISIONS BASED ON VALUES OF SPACE

Total Rent $4,000 a year

| | |
|---|---|
| First 10 feet, worth 25% of entire lot ..... or $2 per square foot | $1,000 |
| Next 20 feet, worth ..... or $1 per square foot | 1,000 |
| Next 30 feet, worth ..... or $0.66⅔ per square foot | 1,000 |
| Last 40 feet, worth ..... or $0.50 per square foot | 1,000 |
| | $4,000 |

Since the rental charge for the entire store amounts to 4% of the net sales of that store, then to carry this rental charge throughout the various departments, it is necessary that the sales in the first 10 feet of space at the front of the store must be not less than $50 per square foot per year. The sales in the next 20 feet of space must amount to not less than $25 per square foot per year, and the sales in the next space must be not less than $16 per square foot per year.

Allowances are not made in these figures for aisle space, doorways, stairways and other non-selling areas. If these are

considered, it is obvious that the sales required to maintain the 4% rental charge would have to be considerably higher, and if one were to consider as selling space merely that space on shelves, counters, and show-cases actually given over to the display of goods, then the sales volume per square foot of space actually used would have to be multiplied at least by 4 or 5. To illustrate, it was found above that the sales required to maintain a 4% rental charge in the first 10 feet from the front of the store would have to amount to $50 per square foot per year. Considering only that space actually used in display and selling, it is clear that the sales volume would have to be not less than $200 or $250 per square foot per year. Quite a responsibility!

The variations worked out above are based on the variations in value worked out by assessment experts. In general they are probably fairly representative of actual differences in value. There are, however, probably even greater variations in value of space within many retail stores, variations which cannot be taken into account in the rough methods used by real estate assessors but which need consideration in making retail floor plans and in assigning various departments to various spaces in accordance with their profit-making possibilities.

**Variations in Value of Space for Various Floors in Retail Stores.**—In a retail store with more than one floor there are variations in sales and profit-making possibilities on passing from floor to floor, just as there are differences in value of spaces on the ground floor. As the height from the ground floor increases the difficulty of getting customers also increases. The use of the most modern elevators and escalators modifies these relationships but does not alter the general fact. Therefore, in the apportionment of the total rent of a building to the various floors, due regard is usually taken of these differences in values. The following figures which have been collected by the author give actual cases demonstrating the differences in value assigned to different floors by retail store institutions. (See Table 20.)



TABLE 20. APPORTIONMENT OF RENT OF BUILDING TO THE VARIOUS FLOORS

(Percentage of Rentals Allotted to Each Floor in Stores More than One Story High)

| Floor | Stores No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | % | % | % | % | % | % | % | % | % | % | % |
| Basement | | 35 | .. | 25 | .. | 15 | 10 | 10 | 15 | 12½ | 15 | 15 |
| Main | | 65 | 65 | 50 | 60 | 45 | 45 | 50 | 40 | 35 | 35 | 30 |
| Second | | .. | 35 | 25 | 30 | 25 | 25 | 20 | 20 | 20 | 20 | 19 |
| Third | | .. | .. | .. | 10 | 15 | 10 | 10 | 15 | 15 | 10 | 15 |
| Fourth | | .. | .. | .. | .. | .. | 10 | 10 | 10 | 10 | 10 | 8 |
| Fifth | | .. | .. | .. | .. | .. | .. | .. | .. | 7½ | 5 | 6 |
| Sixth | | .. | .. | .. | .. | .. | .. | .. | .. | .. | 5 | 4 |
| Seventh | | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 2 |
| Eighth | | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 1 |

As indicated in the table, the rent value of stories above the first declines rapidly for retail purposes. This brings up a question of interest, once considered important, as to how high up retail customers would go. A generation ago it was commonly asserted that five or six stories represented the profitable limit of retail selling. As late as 1912, a writer in the *Architectural Record* stated that nine stories above the ground with two basements beneath probably represented the profitable limits. Recent skyscraper construction in the retail field has shown that there are no such definite limits as there were formerly believed to be. Any dislike or distaste on the part of customers against traveling in elevators, once current, has apparently entirely passed away. The limits of upper story use seemed to depend upon the amount of time required, the convenience of elevator service, and the crowds. The increased expense of carrying crowds of customers to higher and higher floors will probably prove to be the ultimate limiting factor on how high above the ground retail trade can be transacted.

In conclusion, retail store space is of varying value accord-

ing to its location within the store. Each square foot of space is also worth so much whether this amount is earned or not. In good retail store accounting, each department, whether selling or non-selling, should be charged with the rental for the space it occupies and good retail store management should begin with the layout by placing each department in that location which will bring the best returns for the store.

It is not an easy matter to assign proper values to the various spaces within a retail store. One basis of estimating this value is by experimentation with various departments and lines of goods over a period of time. Any space is worth what it can earn through its use by the best possible department. Another method of getting at the value of any particular space in a retail store is by determining what it would bring if leased to some outside concern. Department leasing is now frequent enough to make this a practicable method of approximating space values.

In some of the best-managed retail stores the entire space is plotted and laid off into areas or zones, each at various rental rates. In a metropolitan department store these rental rates range from $5 per square foot for the best locations down to 50 cents per square foot, indicating a variation in value in the estimation of the management of that store amounting to 10 times.[1]

**Factors in the Determination of the Proper Location of Merchandise Departments.**—All parts of the space provided by a retail location should be used in the way which will produce the best results. This is a fundamental principle of good merchandising. Those goods which will move most rapidly and at the same time produce the most profit for the retail store should be given the best locations.

The factors which determine the location of the various merchandise departments within a retail store include:

[1] See Godley and Kaylin, The Store Wide Controller. The Ronald Press Co.



1. Sales and profit possibilities.
2. Pleasing appearance.
3. Convenience of customers.
4. Convenience and ease of selling.
5. Experimental work to determine the sales possibilities of new or untried goods.

**1. Sales and Profit Possibilities.**—Out of the experience of retail stores with various classes of goods, it has been found that certain kinds produce much better results, even with equal display opportunities, both in sales and profits, than others. Detailed statistics are now available, such as in Table 21, indicating the sales per square foot possibilities of many lines of goods. To be sure, most of these figures are unscientific and inadequate for, as they are drawn from actual practice, they do not fully represent the theoretical possibilities for each line. A more careful study of the sales possibilities of each department and line under varying conditions of location would probably show widely different results. Differences in sales results are definitely traceable not only to the classes of goods but also to the locations occupied, not to mention other factors, such as unusual sales promotion, advertising, display, and so forth.

Table 21 shows actual retail sales per square foot as worked out in several department stores and indicates normal ranges of sales per square foot. By study of this table it may be seen that in a number of cases the sales exceed $100 per square foot. In a still larger number of cases the sales average between $50 and $100 per square foot, and finally there are a number of departments whose sales are usually below $50 per square foot.

This tabulation presents no information and takes no account of the profits earned from the sale of the goods in these departments. Quite naturally there are differences in the net profit margins but for the purpose of this study this factor must be omitted.

TABLE 21. ANNUAL RETAIL SALES PER SQUARE FOOT
(From information gathered by the National Retail Dry Goods Association.)

| Merchandise Department | Store No. 1 | Store No. 2 | Store No. 3 | Store No. 4 |
|---|---|---|---|---|
| Art goods | $ 46.00 | $ 74.10 | $ 14.00 | |
| Barber | | | 10.00 | |
| Basement: | | | | |
| Boys' and men's furnishings | | | 13.00 | |
| Hosiery and knit underwear | | | 33.00 | |
| Infants' and children's | | | 31.00 | |
| Millinery | | | 31.00 | |
| Muslin underwear | | | 29.00 | |
| Negligee | | | 17.00 | |
| Ready-to-wear | | | 74.00 | |
| Shoes | | | 38.00 | |
| Waists and sweaters | | | 32.00 | |
| Beauty shop | | | 16.00 | |
| Bedding | | | 31.00 | |
| Birds, goldfish, cages | | | | $125.00 |
| Blouses | 43.00 | | | |
| Books | | 91.40 | 42.00 | |
| Boys' clothing | | 48.02 | 28.00 | 60.00 |
| Boys' furnishings | | 56.21 | | |
| Candies | | | | 125.00 |
| Children's shoes | | 63.03 | | 125.00 |
| China and cut glass | | | 11.00 | |
| Cigars and tobacco | | | | 350.00 |
| Circulating library | | | 40.00 | |
| Coats | 164.00 | 98.00 | | |
| Corsets | 91.00 | 70.20 | 69.00 | 70.00 |
| Cotton | | 148.74 | | |
| Domestics | 57.00 | | 50.00 | 80.00 |
| Draperies | 51.00 | | 19.00 | |
| Dresses | 105.00 | 55.75 | | |
| Dress goods | 99.00 | 87.37 | 36.00 | 70.00 |
| Dress trimmings | | 187.55 | | 60.00 |
| Drugs | | | | 100.00 |
| Floor coverings | | 22.69 | 14.00 | |
| Furs | 61.00 | 48.75 | 43.00 | 80.00 |
| Girls' wear | | 58.56 | | |
| Glassware and crockery | | | | 60.00 |
| Gloves | 296.00 | | 124.00 | 90.00 |
| Gotham | 260.00 | | | |
| Handkerchiefs | 166.00 | 145.41 | 41.00 | |
| Hardware | | | | 60.00 |
| Hosiery | | 158.65 | 112.00 | 125.00 |
| House dresses | 131.00 | | 53.80 | 60.00 |
| House furnishings | | | 12.00 | |
| Infants' wear | 45.00 | 52.60 | 20.00 | 125.00 |
| Ivory ware | | | 99.00 | |
| Jewelry | 189.00 | 57.60 | 66.00 | |
| Junior wear | 62.00 | 70.40 | 25.00 | |
| Kimonos and bath robes | | 42.35 | | |
| Knit underwear | 249.00 | 148.55 | | |
| Laces and embroideries | | 102.24 | 43.00 | |
| Ladies' coats | | | 73.00 | |
| Ladies' dresses | | | 74.00 | |
| Ladies' knit underwear | | | 39.00 | |
| Ladies' neckwear | | | 46.00 | |
| Ladies' skirts | | | 73.00 | |
| Ladies' suits | | | 74.00 | |
| Leather goods | 223.00 | 79.01 | 75.00 | 125.00 |
| Linens | 105.00 | | | |
| Linings | 245.00 | | 52.00 | |
| Lisle | 122.00 | | | |
| Luggage | | | 40.00 | |
| Men's clothing | | 71.60 | | |
| Men's furnishings | 232.00 | 107.67 | 76.00 | 90.00 |
| Men's hats | | 47.18 | 30.00 | |
| Men's shoes | | 48.00 | 20.00 | 80.00 |
| Millinery | 55.00 | 59.95 | | |



TABLE 21 (*Continued*)

| Merchandise Department | Store No. 1 | Store No. 2 | Store No. 3 | Store No. 4 |
|---|---|---|---|---|
| Muslin underwear | 122.00 | 67.79 | 39.00 | |
| Neckwear | 209.00 | | | 90.00 |
| Negligee bath robes | | | 25.00 | |
| Notions | 177.00 | | 35.00 | 175.00 |
| Optical | | | | 60.00 |
| Oriental rugs | | | 28.00 | |
| Paints, etc. | | | | 125.00 |
| Patterns | | 26.51 | 32.00 | |
| Petticoats | 77.00 | | 50.00 | |
| Phonographs | | | 13.00 | |
| Prescriptions | | | | 100.00 |
| Restaurant | | | 14.00 | |
| Ribbons | 132.00 | 128.76 | 71.00 | 70.00 |
| Shoes | 87.00 | | 36.00 | |
| Shoe repairs | | | 14.00 | |
| Shoe shining | | | 22.00 | |
| Silks, velvets, etc. | 135.00 | 179.90 | | 125.00 |
| Silk hose | 432.00 | | | |
| Silk underwear | 204.00 | | | |
| Silverware | | 237.05 | 44.00 | |
| Skirts | 37.00 | 28.39 | | |
| Soda fountain | | 55.90 | 57.00 | 70.00 |
| Stationery | 97.00 | 48.07 | 46.00 | |
| Sports wear | 31.00 | | | |
| Suits | 30.00 | 60.01 | | |
| Sweaters | 56.00 | 87.55 | 45.00 | |
| Tires | | | 320.00 | |
| Toilet goods | 353.00 | 247.07 | 56.00 | 100.00 |
| Toys | | 38.97 | 19.00 | 70.00 |
| Trimmings | 151.00 | | | |
| Trunks and bags | | 32.57 | | |
| Umbrellas | 180.00 | 204.35 | 98.00 | 150.00 |
| Underwear | | | | 80.00 |
| Vacuum cleaners | | | 128.00 | |
| Veilings | | 115.00 | | |
| Wash goods | 108.00 | | | 125.00 |
| Waists | | | 53.00 | |
| Wall paper | | 21.20 | 34.00 | |
| Washing machines and carpet sweepers | | | | 150.00 |
| White goods | | 71.38 | 37.00 | |
| Women's gloves | | 171.10 | | |
| Women's neckwear | | 101.22 | | |
| Women's ready-to-wear | | | | 60.00 |
| Women's shoes | | 86.58 | | 60.00 |

According to the principle of merchandising laid down at the beginning of this section, those departments which offer the highest sales possibilities, other things being equal, should be located in the most valuable store space, the space nearest to the entrance. Among the departments whose sales exceed $100 per square foot and which are entitled to occupy the most valuable spaces are the following: candies, clothing, handkerchiefs, hosiery, knit underwear, leather goods, men's furnishings, neckwear, notions, silk underwear, umbrellas, and some others.

Similarly, merchandise departments showing lower sales possibilities belong in less valuable space, and so on down. Certain exceptions to this principle of department and merchandise location may be noted. Attention has already been called to the fact that the figures presented do not include information on profit-making possibilities. Where greater profits do not coincide with greater sales, the greater profit goods deserve the better locations. Valuable space may also be devoted to departments of low sales and low profits, if the store wishes to develop or build a business in these departments. Such goods may be given the advantages of good location, at least temporarily, to secure public attention and to help the management to increase sales on these lines.

**2. Pleasing Appearance.**—A retail store whose existence depends solely upon the impression it creates upon its customers must never forget the importance of a pleasing appearance. The first impression gained by the customer on coming into the store is, of course, fundamental.

Among the departments of high sales per square foot named in the preceding section, there are some that lend themselves to pleasing and effective display more than the rest. A consideration of the factor of decoration would therefore lead to the selection of merchandise with excellent display possibilities for the best locations. A leather goods department may be arranged so as to produce a more pleasing display than a knit underwear department, and consequently should take precedence in locations nearer the entrance. Similarly, a glove, haberdashery, or men's furnishing department may offer a more attractive display than a notions department, so that despite the high sales per square foot of the latter it must give way to the departments with the more pleasing display possibilities.

**3. Convenience of Customers.**—Another important principle in store layout is that goods should be located where people expect to find them. A study of traffic tendencies within a store shows certain peculiarities which are of importance in determining the spaces within a retail store to be devoted to the various classes of goods. Some of these traffic tendencies which are common in all parts of the country may be noted.



a. Of the number of people who pass a store a certain proportion, varying with the type of business and attractiveness of window displays, may be induced to enter. Of those who enter, a certain proportion buy goods. A department store in a metropolitan center occupying a space on a very busy street has determined that about 10% of the people who pass by the store enter, and the number of purchasers amounts to about 50% of those who enter.

b. A large proportion of the people who enter the store do not pass beyond the first floor, and in stores occupying but one floors do not pass far beyond the main entrance. As an illustration of the importance of the value of the first floor in a particular store occupying seven sales floors, more than 25% of the total number of sales are made on the first floor.

c. There are natural traffic routes in a store such as the following:

(1) The people in this country on coming through the entrance naturally turn to the right. After proceeding for 15 or 20 feet in this direction, they seem to tire of this movement and then turn toward the left, so that the traffic route, while generally turning to the right, takes a somewhat zig-zag channel down the right side of the store.

(2) Natural traffic routes are also established from the entrance of the store to elevators or stairways, to the rest rooms, to soda fountains, to restaurants, or to lunchrooms.

(3) If bargain departments are localized for any considerable period of time natural traffic routes are formed from the main entrance to these departments. Such traffic channels also tend to become established between the main entrance and highly successful departments dealing in standard or staple goods.

**4. Making it Easy for Customers to Find the Goods They Want.**—In addition to placing departments where customers expect to find them the layout in a modern store is planned so as to permit an easy view of the entire floor, if this be possible, from the entrance. High fixtures have largely given way to low fixtures not more than 5 feet high, permitting easy view in all directions. A view contrary to this principle is held by some very able retail merchants. Instead of planning their stores so as to provide wide vistas throughout the store, each sales floor is broken up by partitions and fixtures so that each department becomes in effect a separate, small, intimate shop. Among important stores planned along these lines are Franklin Simon's in New York and Bullock's in Los Angeles. For other reasons, Harrods in London, of which several department illustrations were presented in Volume I, offers an excellent example of this big store broken up into small shops. In general, stores believe that such trade can be more successfully handled by a layout of intimate shops than by the large, open floor plan. With these exceptions, the trend at the present time is definitely in the direction of the use of fixtures which do not obscure the view of the entire floor and there are cases in which mercantile establishments, formerly planned to carry out the intimate shop idea in layout, have dropped this and have come around to the open store plan.

In addition to serving the customer by providing an easy view of the entire floor, the customer should also be guided by appropriate signs properly placed. Locations of goods are indicated by arrows pointing the way to special departments, by having the elevator operators announce the principal departments on each floor, by posting directory boards at prominent places, such as near the entrance, indicating the locations of departments, and by systematic training not only of aisle managers and information clerks but also of salespeople to inform customers where desired goods may be obtained. The larger retail stores also follow the practice of including the



location of goods in their advertising along with other descriptive matter.

Another consideration of convenience for the customer is the provision of quick service, prompt change making and parcel wrapping, and delivery of goods. This will be discussed in greater detail under the subject of fixtures and equipment.

**Location of Departments According to Degree and Kind of Service Required.**—Certain staple goods, necessities, and goods of standard qualities, usually of low price and habitual use, are essentially self-selling. The service of the store with respect to these goods is merely to have them on hand and to complete transactions for them as promptly as possible when customers ask for them. Such goods are usually called "convenience goods." Such goods are purchased by consumers when wanted and as wanted. Customers come to the stores for them and will go to the departments where they are to be found. Departments for convenience goods may, therefore, be established in the less desirable space of the store. It should be kept in mind, however, that while customers will go to the less desirable parts of the store for these goods, their location near the front or nearer to the main traffic lines would almost invariably increase the sales, but probably not in the same proportions as on other classes of goods.

There are other kinds of goods that appeal to personal taste which require trying on and fitting or demonstration as to use. Such goods usually represent high unit sales. They may be representative of fashion or novelty and as such may require careful demonstration on the part of salespeople and close consideration on the part of customers. Such classes of goods are known as "shopping goods." The proper locations for such goods are in spaces near to or convenient to the main traffic aisles but not directly on them. Crowds passing by are not conducive to careful study of such goods, hence they are rarely located near the entrance, elevators, stairways, or main traffic

channels but are usually located at points which can easily be reached from the entrances or elevator openings.

Finally there are the novelties and new goods usually of moderate or low unit values which may appeal to taste and be governed by fashion but which are bought on appearance rather than as a result of special consideration such as outlined for the preceding goods. Among novelties may be mentioned: dress accessories, moderate-priced jewelry, toilet articles, scarfs, neckwear, leather goods, and so on. These are the goods which run into high sales if given the proper selling spaces, but which fall utterly flat if hidden away in locations not on the main traffic channels. These departments are, therefore, usually located at or near the entrance or on the main traffic aisles.

Retail store layout also distinguishes between goods that are purchased by men and by women customers. A large percentage of most retail purchases are made by women. There are a few lines in which men purchasers dominate, such as men's clothing, shoes, and hats. In order to secure the greatest success from these departments, those stores that combine the sale of both men's and women's goods, find it to their advantage to separate them as definitely as possible from women's goods. Departments of men's goods in department stores seem to thrive best when given separate entrances and separate conveniences, fitting rooms, and so on, away from the main traffic channels.

Finally, there is the possibility of convenience to the customer as well as profit to the store, in arranging merchandise departments as well as merchandise lines within the departments in logical correlative groups that help the customers in making additional purchases and thereby help to increase the sales of the store. As illustrations, the women's shoe department may be located as near to the women's hosiery department as possible. The millinery, leather goods, and clothing departments may be ranged in close proximity. In men's goods, collars, neckwear, shirts, gloves, and jewelry may follow each



other in regular order and thereby increase the possibilities of sales by the suggestion of nearby displays of goods the customers may need.

Ensemble or companion selling is one of the dominant notes at the present time, whether it be in home furnishings,

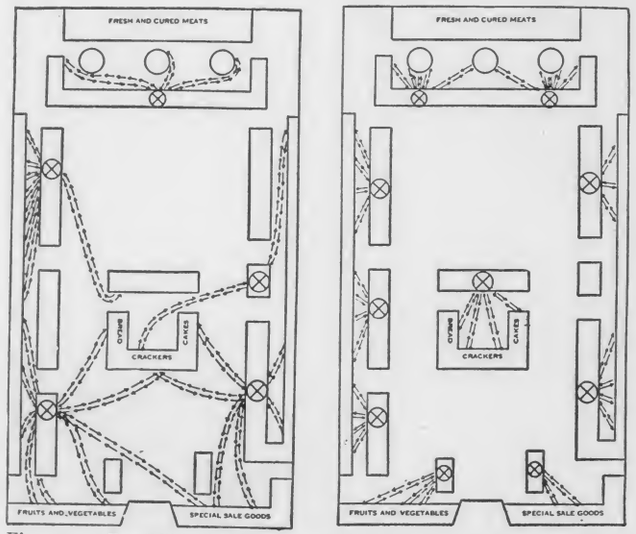


Figure 33. Possibilities of Time Saving in a Retail Store by Proper Use and Location of Fixtures (Scales)
From advertisement of Toledo Scale Co.

clothing, school needs, vacation needs, or what not. The problem is to work out a layout or store plan which will permit goods that go together to be shown as near together as possible.

**5. Convenience and Ease of Selling.**—Careful layout of a retail floor also provides for the saving of time and energy of salespeople by the location of departments and of goods within the departments in such a way as to make most easily

available those goods that are most frequently called for. Easy access to stock is a highly important point in store planning. The store must secure a maximum amount of sales with a minimum number of people.

Proper and easy floor supervision is another detail of considerable importance in effective layout. The Toledo Scales Company of Toledo, Ohio, has made effective use in its advertising of a principle involved here, by pointing out the waste of salespeople's time resulting from an inadequate number of scales or impractically located scales in grocery stores. (See Figures 33 and 34.)

**Changes in Locations.**—Obviously, whenever an error in layout is made, and after tryout discovered, it should be corrected as soon as possible. Changes may also be necessary even when the original layout was not in error, but are due to changes in popular demand. A layout for women's apparel shops, planned some years ago, would naturally allow a very considerable amount of space for blouses, petticoats, and suits. The trends of fashion have opposed these goods so that they are no longer important; consequently, even when departments of these goods are retained they scarcely deserve the excellent locations formerly credited to them. Old layouts require revisions to meet the changes in fashion.

Changes in seasons also force the necessity for changes in layout. Toy departments and other departments dealing in holiday goods before Christmas time call for the use of more and better space at this time than during the rest of the year. Sporting goods and vacation goods are due for better space in the springtime.

An unusual consumer demand may also develop for certain classes of goods and thereby make necessary special or unusual plans in floor layout for the length of time that the demand continues, to be followed by a layout based on more normal selling conditions thereafter.

Figure 34. An Old-Fashioned Back-of-the-Counter Stock Arrangement

It illustrates almost everything that it should not be. It is not pleasing in appearance. It is inconvenient both for customers and salespeople. It is not easy for customers to find what they want. It offers the merchandise no opportunity to sell itself. Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

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Despite the necessities for changes in layout indicated above there is another important fundamental principle in merchandising, namely, that layout, when once successfully established, should not be lightly changed. Customers who learn the locations of the goods grow accustomed to coming to them for such goods and are disappointed and even irritated when changes are made. It is well-recognized that goodwill may be developed for outside locations, even for small shops, and that this goodwill inheres in the location rather than in the name of the place or even of the personality behind it. Similarly, goodwill is developed for interior locations and constant changing of departments from one part of the store to another has the effect of uprooting such goodwill.

This should not be interpreted as in any sense an argument against changes of displays and even of fixtures within a department. Such changes may be made as frequently as necessary without danger, but to move the entire department from one part of the store to another is quite a different matter.

**6. Give New Goods a Chance to Show Their Sales Possibility.**—Very few stores can maintain their standard or prestige by selling well-established standard goods. Changes in fashion undermine consumer demand so that what is in demand at any time will soon pass out. To insure that the store shall constantly have goods that are coming into demand a certain amount of experimental display and selling is necessary. Out of such experiments the store may develop future sales volume and at the same time maintain a certain degree of prestige for having variety and new goods. Such experimental work may not in itself be profitable, but its possibilities from the standpoint of advertising and of assurance of having the merchandise that is coming into fashion, make it worthwhile.

To insure proper testing of the sales appeal of new merchandise it is essential that it should be given a prominent place in the layout. In arranging stock within a department



such new goods are usually given the best locations; similarly, new goods and novelties not definitely assigned to regular departments should be shown in one of the most valuable spaces in the store.

**Illustration of Good Layout in Retail Stores.**—It may be possible to illustrate by actual examples from retail stores how the various principles and factors affecting layout are put into effect.

a. "RESTAURANTS. Recall your last trip to a self-service restaurant, or cafeteria:—As you pushed your tray along the rails you encountered first a tempting array of salads; next were the desserts, fruits, puddings, pies, ice cream; then the soups, meats, and vegetables; and finally the beverages. Your favorite cafeteria may vary this arrangement, but it is the most common one and the most profitable. Salads and pastries pay the largest percentages of profit; therefore, you are tempted by them first of all. Once you have them, you are sure, unless you are on a diet, to select the substantial meat and vegetable dishes; also, being American, you must drink tea, coffee or milk with your meals. When you get to the end of the counter you may reflect that you have bought more than you really want; it is a common complaint against cafeterias. Your eyes were larger than your stomach and the proprietor knew it. Hence his carefully displayed menu.

b. "HARDWARE STORES show more variety in their methods of stock display than most others. There is, however, a fairly common tendency to place sporting goods in the front part of such stores. This is because most customers of a hardware store enter it for the express purpose of buying some article of hardware; most other merchandise must be sold as the result of an unpremeditated decision, caused by seeing a prominent display. , Also, sporting goods lend themselves admirably to window trimming and it is easy to link the window display

with the counters inside the front door. Bulky or heavy merchandise and that purchased only when needed are kept in the rear portion of the store. Nails, hinges, shot, wire and cordage are examples. Extra heavy and bulky things, such as stoves, linoleum or ash cans, are not displayed or are shown only as samples. The mid-section of the store is usually devoted to such things as cutlery, silverware, electrical appliances and kitchenware. Center cases, either of glass or pyramid shelving, may be used for this class of merchandise. Counters are used for novelties, new lines being introduced and high-priced, small-bulk hardware like watches, pens and flashlights. The paint department is usually displayed, if at all, in the extreme rear of the store.

c. "DRUG STORES present an unusual problem in stock arrangement because of the great variety of goods sold. It takes considerable experience to be able to say whether spirits of camphor, face powder or electric curling irons sell most quickly. Nevertheless stock arrangement in drug stores is now highly standardized. In the stores of one of the largest chains the arrangement is:

Front—Tobacco and candy
Middle—Soda fountain, toilet goods and sundries
Rear—Prescriptions and proprietary medicines
Aisle Cases—Special offerings, books and stationery

"This arrangement is subject to various modifications often made necessary by the size and shape of the store. Where it is impossible to give the candy and tobacco departments equal prominence they are placed side by side, the tobacco being near to the entrance. The candy counter is supplemented by aisle stands containing special candy offerings and chewing gum.

"A large soda fountain is found in all these stores; it takes up the center of the store on one side; if not in the exact center it is nearer the entrance. Opposite will be found toilet specialties, face powders, dental creams, perfumes. In the aisles at

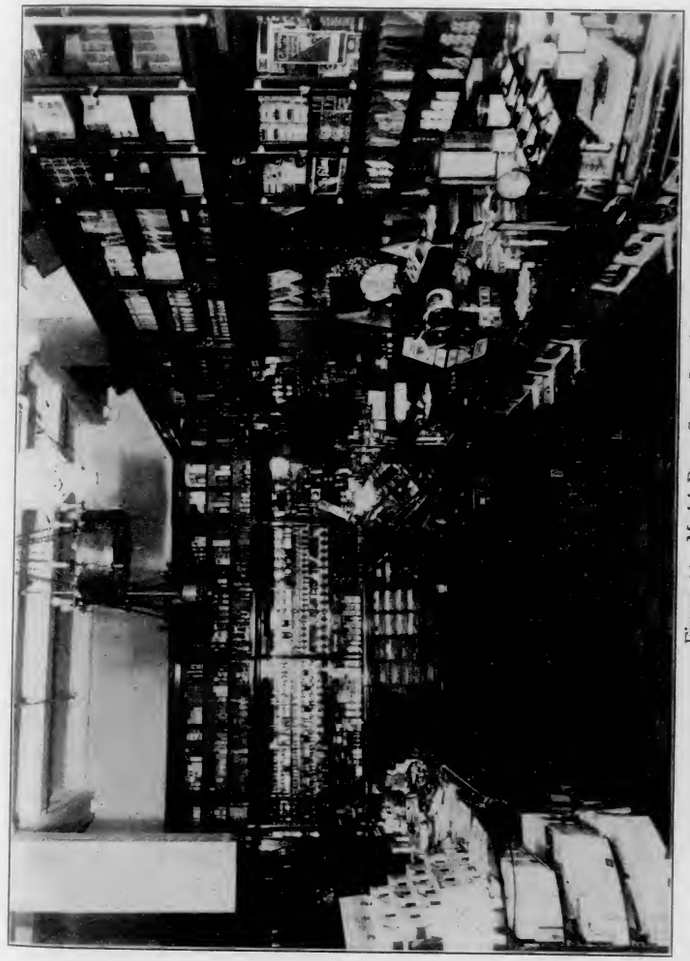

Figure 35. Model Drug Store Interior
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

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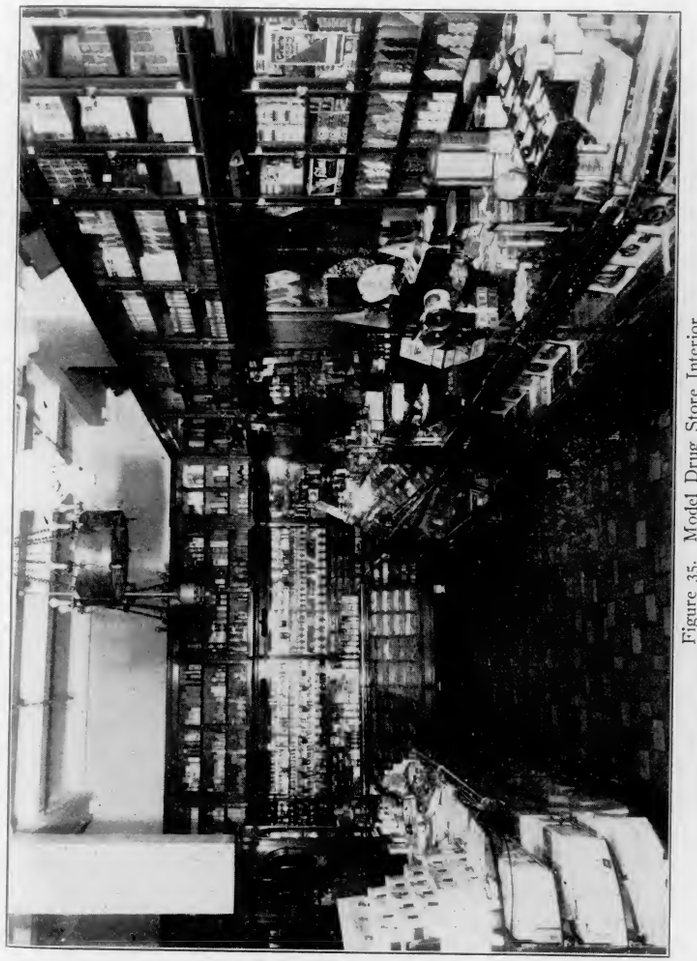

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this point are cases of stationery, books and specially priced articles, such as alarm clocks, whisk brooms, chamois skins and leather novelties. In the rear wall cases are proprietary medicines, flanked by cases of electrical appliances, rubber goods, and hospital supplies. Back of these cases is the room for compounding prescriptions.

d. "TOBACCO STORES may be divided roughly into two classes—those which have lunch counters or soda fountains and those which do not. As the soda fountain occupies usually one entire side of the store it does not affect the arrangement of stock. Practically all tobacco stores give their expensive cigars first place, moderately priced cigars second place, pipes, cigarette holders and smokers' accessories last. Cigarettes are in pigeonhole cases back of the cigar counter, smoking tobacco in bins or drawers below the cigarettes; chewing tobacco is in the lowest bins. A great chain of cigar stores has standardized the arrangement just described. They display cigars as follows: Imported; Clear Havana; Porto Rican and Manila; Domestic. Their cigarettes are arranged alphabetically without regard to price. Candy, safety razors, toilet goods and other side lines handled are displayed prominently in the front of the store. Otherwise, of course, a store specializing in tobacco could not sell these side lines in quantities large enough to justify the space they occupy.

"In general, this chain gives the most prominent display, both on counters and in windows, to popular, fast-moving stock. Their most popular cigar is pushed at every opportunity, with the result that good sales are made better.

e. "GROCERY STORES. In the grocery field, both chain and independent stores handling quality goods adhere to the plan of placing staples and articles in current demand in the rear where they are not so prominent; and placing fancy groceries—products which without special display might reasonably be expected to move more slowly—in position where they will force themselves upon the notice of all who enter. Curiously enough, the manager of the independent store and the district manager of the chain mentioned identical products in giving examples of goods displayed in the front of the store. They were 'olives and salad dressing.'



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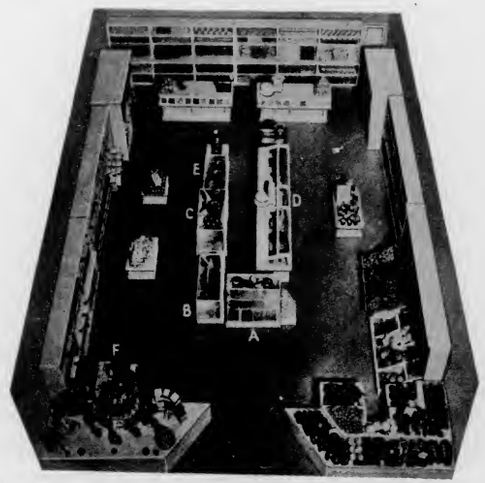


Figure 36. **Grocery Store Arrangement Suitable for a Small Store Doing a Volume of Business up to $75,000**
From "Grocery Store Plans" by "The Progressive Grocer."

smaller store. After giving fancy goods and perishables a front position, the manager of the larger store must use his ingenuity in grouping his stock so as to get maximum sales.

"In the chain grocery the problem is simpler. One side of the store is known as the 'counter side.' This is where the clerk stands ordinarily and where the cash register is placed. Here the customer stands while waiting for packages and change. Advantage is taken of this opportunity to interest the customer

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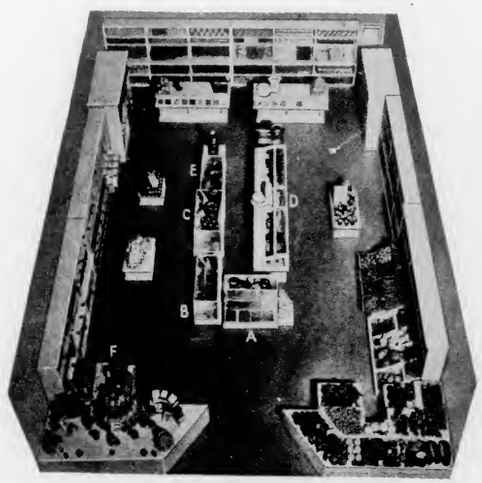


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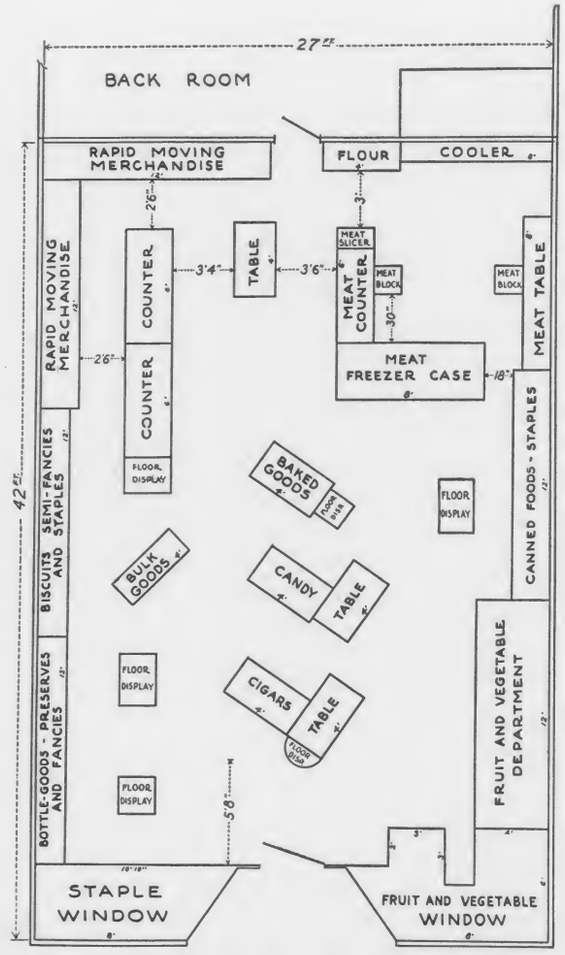


Figure 37. Diagram of Grocer's Floor Plan Suitable for a Suburban Neighborhood or Small City Combined Grocery and Meat Market
From "Grocery Store Plans" by "The Progressive Grocer."



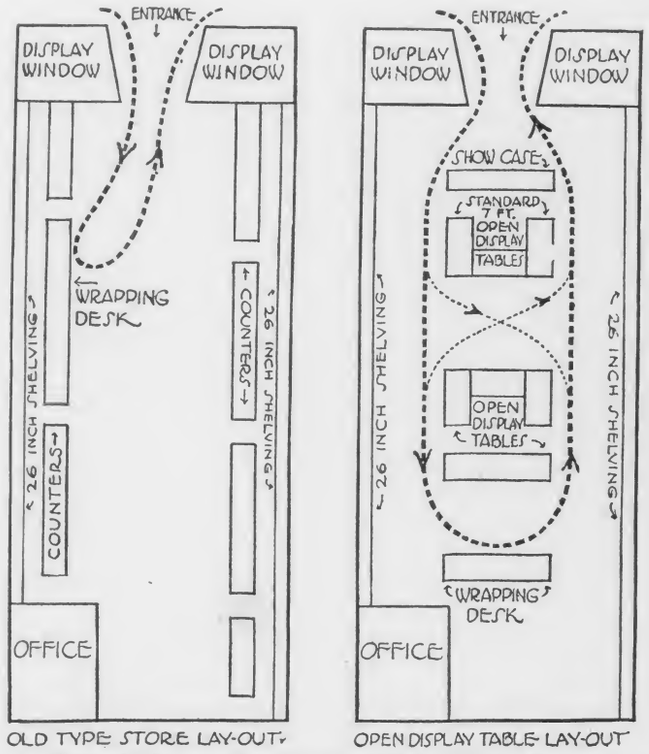


Figure 38. Suggested Improvement of Old Type of Store Layout

The left-hand diagram shows old-fashioned store plan with counters running down the sides, wide center aisle, and service wrapping desk located near entrance. The right-hand diagram shows modern store layout with side counters entirely missing but show cases and display tables down the center and two aisles. The wrapping desk is located in the back of the store. The dotted lines indicate the customer traffic channels in each type of store. Side counters are passing out of use in many types of stores.

Diagrams adapted from descriptions presented at 75th anniversary trade conference conducted by A. J. Luther for Carson, Pirie, Scott & Co. and as reported in *Retailing*, September 7, 1929.

in fancy groceries, both by shelf and counter display. In addition to fancy groceries, however, breakfast foods and a few articles of similar importance are placed on the top shelves on this side of the store, for the convenience of the clerk.

"Opposite the 'counter side' are shelves of ordinary canned goods. Potatoes, flour and other bulky foods are in the rear. Fruits, vegetables and other fresh perishables are near the entrance. Central bins are now being provided in stores of this chain, for the more immediate display of perishables." [2]

f. Department Stores. Department stores of several floors usually devote the first floor to quick-selling departments including fancy goods, small wares, men's furnishings, jewelry, silverware, leather goods, and so forth.

On the second floor many department stores locate their men's and boys' ready-made and custom-made clothing, shoes, sporting and athletic goods, motoring apparel, and so forth.

The third floor is usually given over to women's and misses' clothing, shoes, lingerie, intimate apparel, and corsets.

The foregoing are sufficient to illustrate the tendencies of layout by floors.

In drug store layout, toilet goods, which in centrally located drug stores may account for as much as 20% of the entire sales, are placed next to the door. The toilet goods department is usually placed on the right-hand side and efforts are made through the location of cash registers and wrapping desk to give very quick service. Following the toilet goods department in drug stores come such departments as candy, cigars, and soda fountains located on either side ranging from the front to the middle of the store. The drug and prescription departments are usually located in the back part of the store since customers do not patronize these except when they come to get the goods that they must have.

[2] From "Arrangement of Stock in Retail Stores," by Domestic Distribution Department, Chamber of Commerce of the United States, September, 1924.

Figure 39. Main Floor of S. S. Kresge Department Store, Newark
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

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[2] From "Arrangement of Stock in Retail Stores," by Domestic Distribution Department, Chamber of Commerce of the United States, September, 1924.

Figure 30. Main Floor of S. S. Kresge Department Store, Newark
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

Figure 40. A Well-Arranged Display of Men's Clothing and Furnishings
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

Figure 41. Attractive Dress Department
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

INTENTIONAL SECOND EXPOSURE

Figure 40. A Well-Arranged Display of Men's Clothing and Furnishings
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Figure 42. Millinery Display in Burden Bros., Inc., Jamaica, N. Y.
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

Figure 43. Men's Shoe Department, Franklin Simon Co., New York
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

**Fixtures and Equipment.**—Next in importance and significance to proper layout and location of merchandise departments comes the selection and use of proper fixtures and equipment. In the sales departments note may be taken, first, that the fixtures must be such as to suit the individual merchandise offered for sale. The type of fixtures required in an umbrella and cane department must of necessity be very different from the type of fixture used in the sale of hosiery, gloves, or men's shirts. For safekeeping and protection from dust and handling, better-class goods are usually stored in showcases and shelving in removable trays and back of glass fronts. Lower-priced goods and bargain goods of all kinds are displayed on open tables or counters, aisle tables, or aisle fixtures where the opportunity can be given to customers to serve themselves as far as possible and thereby cut down the expense of selling such goods.

The characteristics of good sales fixtures are as follows:

1. They should show the goods offered for sale as much

INTENTIONAL SECOND EXPOSURE

Figure 42. Millinery Display in Burden Bros., Inc., Jamaica, N. Y.
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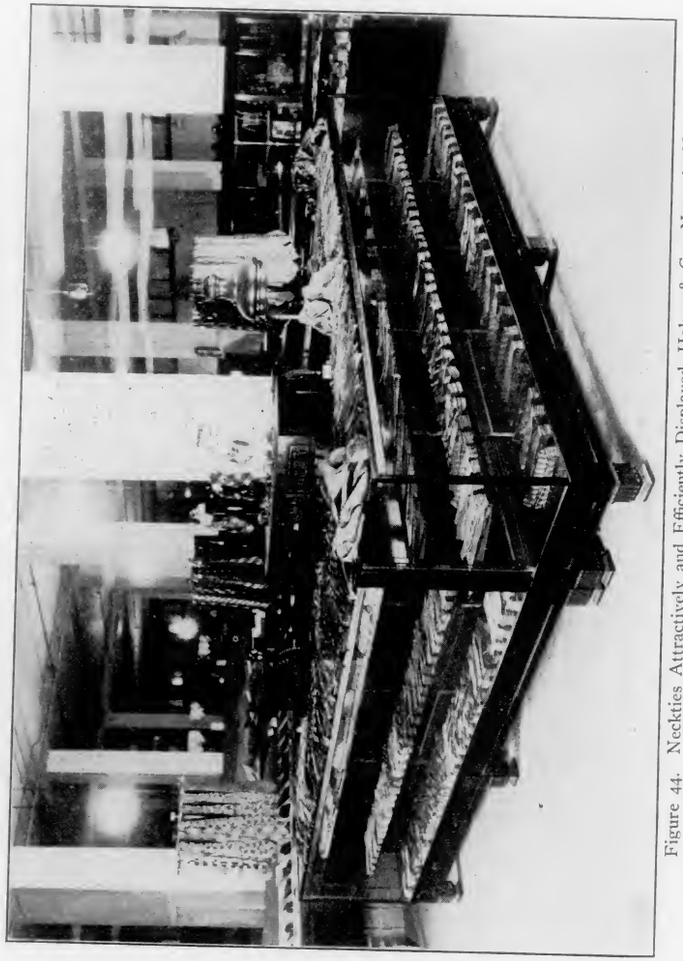
Figure 44. Neckties Attractively and Efficiently Displayed, Hahne & Co., Newark, N. J.
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation

Figure 45. Well-Displayed Merchandise in Dustproof Cases, Open to Constant Inspection
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.

INTENTIONAL SECOND EXPOSURE



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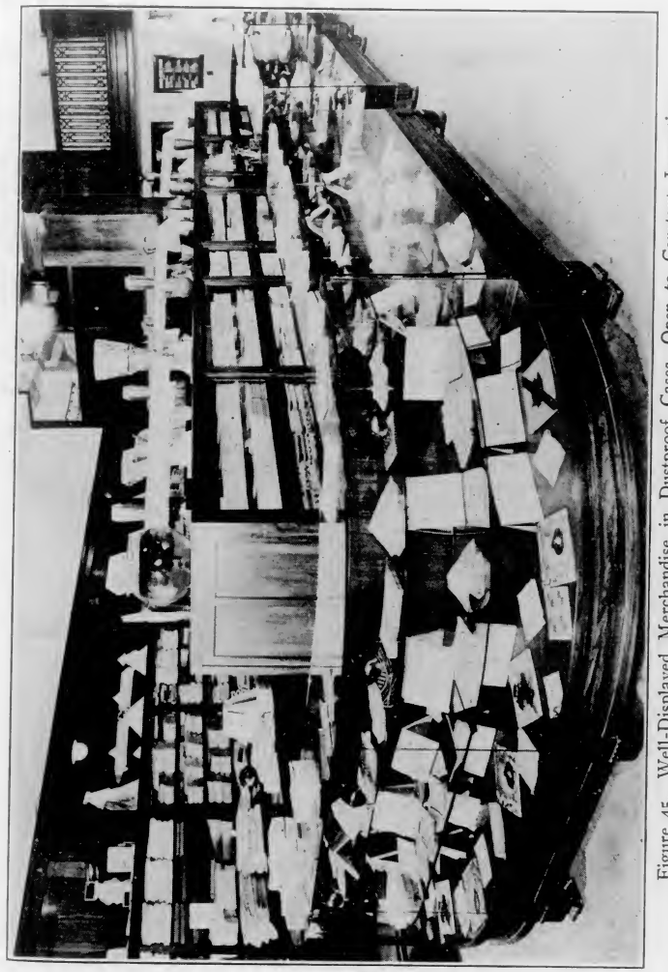

Figure 45. Well-Displayed Merchandise in Dustproof Cases, Open to Constant Inspection
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Figure 46. Modernistic Store Interior and Furniture, Making a Most Attractive Sales Room for Women's Clothing
Photograph courteously supplied by the Grand Rapids Store Equipment Corporation.





as possible. The display should be systematic and ordinarily not crowded, but there should be an adequate representation of qualities and quantities.

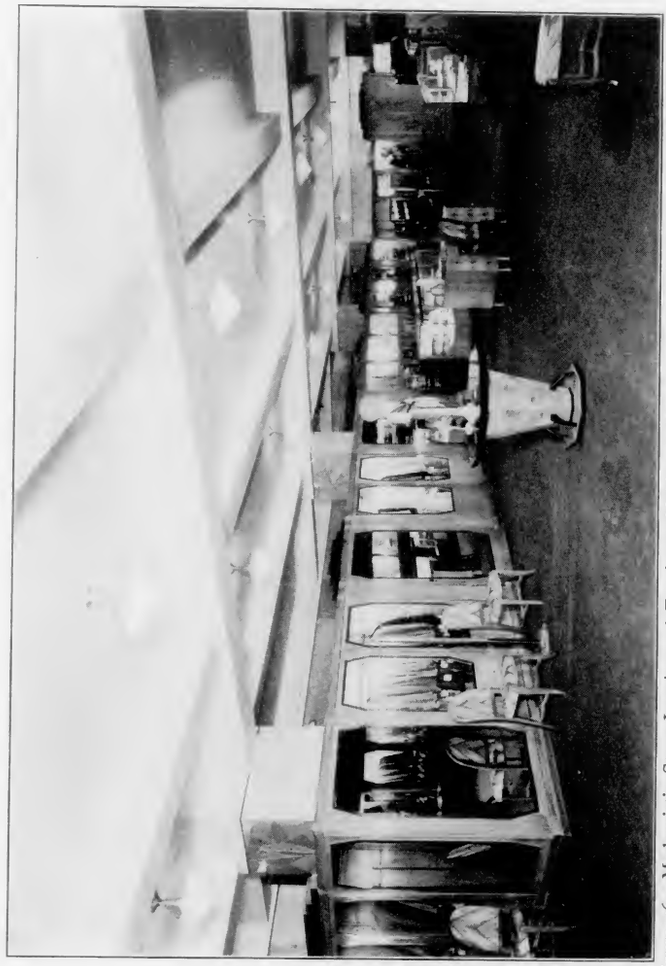
2. The fixtures and equipment should be such as to make it possible to display the merchandise in an attractive way. The purpose of such display is to invite passers-by to stop and to tempt them to further examination.

3. The aim at all times should be to focus interest on the merchandise and not on the fixtures. Ordinarily this means that the fixtures should be simple in ornamentation, frames reduced to a minimum, hidden lights, and colorings that harmonize as closely as possible with the merchandise offered. Bright, tricky fixtures are usually more harmful than helpful. It should be said in passing, however, that fixture requirements depend to a large extent upon the type of retail establishments conducted. A retail store catering to a clientele with high purchasing power and trained tastes may be furnished with fixtures in some suitable period design. But when it goes into period designs it should carry out the same idea throughout. Nothing could be more incongruous than Italian and Colonial period fixtures all mixed up on the same floor or in the same department. Too much emphasis on the design of the building and its fixtures even in the most exclusive type of store, tends to detract from the interest in the merchandise.

4. Fixtures should help customers to help themselves by making it possible for them to see the merchandise and, if not incompatible with the protection of the goods, to handle them. The ideal sales fixture is the open counter arranged in an orderly manner, to which customers may come freely and examine the goods to their heart's content.

5. Fixtures should be such as to assist in keeping the stock in good order by proper arrangement of the varieties of goods handled, by groups, colors, sizes, and so on, so that each type of article may have a proper place and when disturbed or jumbled

INTENTIONAL SECOND EXPOSURE



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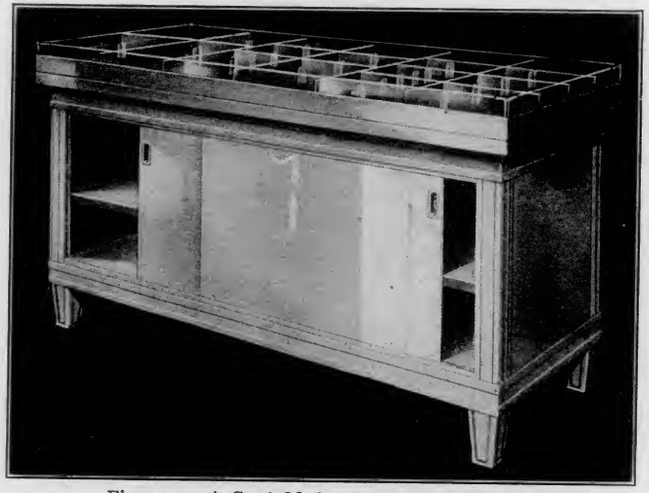

Figure 47. A Good, Modern Merchandise Counter
It is equipped with adjustable glass compartments and sliding doors. Design is simple but attractive and may be easily cleaned. Illustration from advertising of Lyon Metal Products, Inc.

up by handling of customers may easily be returned to its place. Such an arrangement of fixtures also makes inspection easy, and physical inventories, when taken, simple. The fixtures should be such as to make it easy to find things for customers. Related goods should be located together and companion selling promoted.

6. The next essential of efficient fixtures is cleanliness, not only for protection of the merchandise but also for ease of cleaning the fixtures themselves, and for freedom from dust and dirt-catching ridges and edges.

7. There is a growing tendency to use standard extensible fixtures that come in units so that a department may be extended or contracted according to its needs from one season to another and with the development of the total business of the store.



8. Modern retail store fixtures attempt to secure the maximum utility not only in space but in time and labor of salespeople and customers. Every inch of the fixtures should represent utility of space and it should be easy to get things in and out of the fixtures. Sliding doors and drawers on ball or roller bearings, with no tendencies to stick are essential.

9. The appearance of the fixtures should be pleasing, although, as already indicated, not so dominant as to attract attention from the merchandise. There are fashions in fixture design even as there are fashions in retail store architecture. To continue a set of retail fixtures of a design that has passed out of fashion is to add an additional difficulty in making the business successful.

10. The desirability of having an easy, open view of the store has led to the tendency of adopting low fixtures unless the store is operated on the idea already mentioned, of conducting intimate exclusive shops. There is little or nothing to be gained from the use of high fixtures such as formerly employed. They have little display value for the customers. Customers rarely ever see anything beyond the normal ranges of vision which, at a distance of 6 to 8 feet rarely includes more than a space beginning about 2 feet from the floor and extending upward more than 6 feet. High fixtures, used as storage space for goods, also discourage selling because of the additional effort placed upon the salespeople in handling such goods.

Modern stock cases usually range about 60 inches high. A limited amount of displays of merchandise may be undertaken on the tops of these cases. Such displays are known as "ledge displays." They may be very effective partly as decorative effects, partly as indications of the location of departments, and partly for the sales that they may directly induce.

Wall cases may, of course, extend higher than floor stock-cases. It is common to run them up as high as 9½ or 10 feet. There is little display value, however, in the upper shelves.

The standard height of counter is 34 inches with an allowance of 6 inches off the floor for easy cleaning. Shelving is usually provided beneath the counter for surplus stock and sometimes shelving is also arranged on the outside of the counter for display of heavy goods that may not be appropriately shown on the top. Ready-to-wear fixtures in which garments, furs, coats, and other similar goods are carried, are usually 84 inches high. Shoe shelving is likewise 84 inches high. This is found to be the height of maximum efficiency so far as use is concerned, and additional height would merely cut off more light and air from the salesrooms.

**Labor-Saving Equipment in Retail Stores.**—The variety of activities carried on in a retail store is so great that the application of labor-saving machinery expense in the larger stores is complicated by the first cost of such machinery, the lack of skilled help in operation, and the expense of space necessary for its use. However, as indicated above, large stores have made important progress in the use of such equipment. A list of important labor-saving devices to be found in a modern department store or at the headquarters of chain store organizations is indeed a formidable one, including adding, addressing, bookkeeping, calculating, change making, duplicating, mailing, numbering, selling machines, and so on. Among the mechanical arrangements generally found in retail stores are call systems, electric authorization systems, tube systems, interhouse telephone systems, telautographs and dictographs.

Naturally, where there are manufacturing or alteration departments the types of labor-saving machinery used in such manufacturing industries are introduced to the fullest extent in retail store departments. In the selling departments the more important mechanical devices used in retail stores are the measuring and weighing devices, slicing machines, paper cutting machines, tape machines, string cutters, glove and hosiery repair machines, and so on.



In the receiving, marking, and delivery rooms one finds belt conveyor systems, calculating machines, waste paper compressors, price marking systems, numbering machines, paper shredders, scales, time stamps, floor trucks, paper balers, spiral chutes, and so on.

# CHAPTER IX

## RETAIL STORE PERSONNEL

The most important item in retail operating expense is salaries and wages. For confirmation of this fact the reader may study the tables presented in the chapter on Retail Store Expenses. It is noteworthy that, out of fourteen varieties of retail businesses for which operating expenses were presented in those tables, in ten of them salaries and wages amounted to more than 50% of the total expenses of conducting the business. Indeed, in five types of retail businesses the percentage of salaries and wages to total expenses runs over 60%.

In salaries and wages, there is, therefore, the greatest possibility of effect, of either gain or loss, in relation to the net profits of the store. Hiring and paying employees of a retail store is a responsibility which is at least equal to the responsibility of buying merchandise and, in retail stores that are departmentized, hiring and managing help usually constitutes a greater financial responsibility than that of any single merchandise department. Rarely, however, are the heads of personnel departments paid as much as buyers or merchandise managers. Such is the irony of retail store management.

Changes in employment methods, resulting either in increased or decreased personnel costs, have immediate, direct effects on the net profit of the store. Increasing the sales of a department by 10%, for example, is not nearly so significant in net results to the store as a saving of 10% in personnel expense. An increase of 10% on sales ordinarily does not mean more than an increase of ½ of 1% in the total net profits, but a 10% decrease in personnel expense, if made without





affecting the store's efficiency, means a straight addition to net profits to the amount of the savings involved.

**Complex Problems of Retail Store Employment: 1. Both Males and Females Employed.**—There is a wide variety of problems connected with the management of the employees of a retail store. In the first place both men and women are employed. Among retail stores of all kinds throughout the country there are probably more men than women employed. Among department stores, dry goods stores, variety, 5 and 10 cent stores, millinery, and women's apparel specialty shops, there is a heavy preponderance of women. In a study of the personnel policies of 32 Pennsylvania department stores, made by the Department of Labor and Industry of that state in 1926, it was found that there were more than twice as many women as men employed. In large department stores in metropolitan centers, the proportion of women runs as high as from 80% to 90% of the total number of employees.

There are more men than women employed in grocery stores, meat markets, hardware stores, drug stores, furniture stores, automobile tires and accessory stores, and, quite naturally, in men's clothing stores.

There are likewise considerable variations in the proportions of men and women employed in the various departments within department stores. In general the practice in departments follows the practice of individual stores in the same lines. For example, furniture department employees in department stores are generally men, just as men are employed in independent furniture stores.

Preferences of customers in dealing with salesmen or saleswomen are important considerations, but sex plays a smaller part in salesmanship than is sometimes assumed. In a study made among students in an advanced course in applied psychology at Tufts College[1] to ascertain preferences of customers

[1] Reported in *Retailing*, April 27, 1929.

with reference to the sex of the salespeople who serve them, in Boston department stores, it was found as a general thing that women prefer to buy women's wear items from salespeople of their own sex and men prefer to buy the masculine items from salespeople of their sex. The main exception happened to be shoes for women. A large proportion of women stated that they preferred men salespeople for this item. On a large number of items such as books, handkerchiefs, stationery, and kitchenware, a very large number of both men and women expressed no preference.

The entrance of women into the field of retailing is one of the noteworthy developments of the retail business since the middle of the nineteenth century. They were probably first employed on an important scale in some of the largest dry goods stores of New York, and soon after in the dry goods and department stores of practically every other city.

In a work published in New York in 1856, it was stated that the employment of "ladies as clerks in stores, especially in dry goods stores, was fast becoming very general in America."[2] But with the development of the department store beginning in the late 1860's and throughout the 1870's, and the rise of the notions and variety goods stores, best typified today in the 5 and 10 cent stores, the employment of women as salespeople became a matter of regular course.

There has long been a gradual tendency in nearly all types of retail stores to displace men with women. There is still a demand for salesmen in some departments such as silks and other yard goods, silverware, jewelry, toys, sporting goods, radio, luggage, as well as in departments handling talking machines, pianos, furniture, floor coverings, house furnishings, men's shoes, and men's clothing. During the World War there was a sharp increase in the number of women employed in all sorts of positions, even in lines such as just mentioned in retail stores. Some of the jobs were returned to men after

[2] F. Hunt, Worth and Wealth, p. 499.



the war, but not many. The movement to "dilute," as it was called, retail organizations by employing more women was accelerated by the continuance of high wage rates of intensive competition among retailers, and of growing sales costs. Dilution of staff with female employees has also been furthered as a result of the scientific study of personnel and employment problems following the World War.

**2. High Proportion of Youth and Business Inexperience Among Retail Employees.**—Another characteristic of the rank and file of employees in retail stores is their youth and comparative inexperience in business matters. Retail store work supplies one of the most frequent opportunities for spare-time work of boys and girls in high schools as well as colleges. It is, as well, one of the most important sources of employment for the graduates of high schools. Personnel surveys in certain large retail stores have shown that as many as two-thirds of all the women employees are under 24 years of age. The low wages prevailing among retail store employees, elsewhere discussed, is in part due to the fact that great numbers of its workers are just beginners and very young.

That so many retail store employees are so young often apparently translates itself in the minds of retail managers into the rule that employees should be young. The employment of youngsters is almost a fetich with some employers. There are several stores that will not take in new employees over the age of 40 and even of 35 years of age. The overwhelming demand is for people from 18 to 25 years of age.

The natural lack of business experience of the young people engaged in retail store work is in part counterbalanced, so far as retail service to customers is concerned, by the fact that an increasing number of such employees are high school graduates or have the equivalent of some high school education. In this respect there has been a remarkable change in the character of persons employed by retail stores. A generation ago em-

ployees taken into retail stores averaged less than a common school education. At the present time many retail stores find it possible to supply their personnel needs entirely from high school graduates.

Because of the number of young people hired who leave store work in a few years, the age distribution shows a high peak or mode for employees under 25 years of age. Executives, department heads, and a scattering of rank and file employees of mature and even advanced years, is also characteristic of the older stores. There tends to be a scarcity, a lack of balance of employees in the ages of maturity, that is from 30 to 50 years of age. This, in itself, constitutes a problem of retail personnel management: to run the business with restless youth on the one hand and conservative age on the other, without the advantage of a proper force of mature, experienced, well-balanced employees in between.

**3. Great Variety of Occupations Carried on in Retail Stores.**—There are a great many different kinds of work carried on within a retail store. Selling constitutes the typical labor of the retail store. It is mainly with salespeople that the public comes into contact, and upon the character of the service performed by them hinges the success of the retail store. But, selling goods is not the only labor in a store. Goods must be bought, handled, unpacked, stored, repacked, and delivered. Office records and accounts must be kept, correspondence carried on, advertisements written and goods displayed in windows and store. Finally, the building must be kept in good condition. It must have proper heat, light, and ventilation. It must be kept clean. All of these kinds of work are carried on in order to make the selling end of the business more effective.

The ratio of the number of salespeople who devote their entire attention to selling to the total number of employees in a store depends upon its size. In a small store, there is but



little division of labor. Where only one helper is hired, he may serve alternately, as salesman, delivery man, janitor, and possibly as bookkeeper. Clear division of labor, under which each class of store work is carried on by a separate group of laborers, may be found only in the largest stores; but even here, buyers and stockroom help, as well as several other classes, are frequently employed for part of their time in selling goods, especially during rush times.

In the larger stores, specific employees are assigned to specific kinds of work. In a large modern department store there are more than 200 different kinds of vocations, and in arriving at this figure all buyers are considered as representative of one vocation and all salespeople as of another.

**4. The Number of Non-Selling Employees Tends to Increase as the Size of the Business.**—The most frequently made classification of employees in retail store is between those who sell and those who do not, between salespeople and non-selling employees. As the size of the store increases, the proportion of persons who do not sell increases rapidly. In a study reported in the Bulletin of the Federal Reserve Bank of Boston, December 1, 1925, attention was called to the fact that in the modern department store having annual sales of less than $1,000,000, the number of salespeople is usually thrice, or more than twice, the number of non-selling employees, but on passing to stores with sales of more than $1,000,000, the proportion of non-selling employees increases rapidly. At sales volumes approximating $2,000,000, the non-selling force is practically equal to the number of selling employees. This trend continues into the largest stores in which the number of non-selling employees may be almost twice the number of salespeople.

A more detailed distribution of the employees by occupation in a large retail store may be seen in Table 22, page 270.

A study recently made by the National Association of Retail

Clothiers and Furnishers of the occupational distribution of employees in a number of large comparable men's wear clothing establishments, shows the typical distribution in this field (Table 23).

**5. Irregularity of Demand for Employees.**—Most branches of retailing are subject to great seasonal variations in sales activity. In lines in which fashion is an important factor, retail activity rises and declines with the importance of the fashion. Retail grocery stores and butcher shops in the larger cities are seriously affected by the movements, the comings and goings, of the people in their respective neighborhoods. Business falls off badly in some localities during the summer vacation periods. It rises quickly when schools start and vacations are over. Among department stores it is not uncommon to find the number of people employed in the height of active seasons ranging from 50% to 100% higher than the number employed during the dull seasons. In figures for the 18 largest department stores in New York City, covering a recent year, the number of employees throughout the year ranged from a peak of 55,587 down to 35,322. This variation in the demand for help in retail stores constitutes a serious labor problem.

TABLE 22. TYPICAL DISTRIBUTION OF OCCUPATIONS IN A LARGE DEPARTMENT STORE

| | % of Total Personnel | |
|---|---|---|
| A. Administrative | | 23.8% |
| 1. Executive | 2.3% | |
| 2. Accounting | 11.5 | |
| 3. Credits and collection | 3.9 | |
| 4. Personnel | 1.9 | |
| 5. Mail and telephone | 1.9 | |
| 6. Protection—watchmen | 1.5 | |
| 7. Adjustments | 0.8 | |
| B. Occupancy | | 5.0 |
| 1. Elevator operators | 1.5 | |
| 2. Mechanics | 0.8 | |
| 3. Cleaners, etc. | 2.7 | |
| C. Publicity | | 2.7 |
| 1. Advertising | 1.2 | |
| 2. Display | 1.5 | |
| D. Buying | | 10.0 |
| 1. Buyers | 4.2 | |
| 2. Receiving and marking | 3.9 | |
| 3. Comparison | 1.9 | |
| E. Selling | | 58.5 |
| 1. Salespeople | 38.5 | |
| 2. Cashiers and wrappers | 9.6 | |
| 3. Alterations | 5.8 | |
| 4. Delivery | 3.1 | |
| 5. Miscellaneous | 1.5 | |
| Total | 100.0% | 100.0% |



TABLE 23. TYPICAL DISTRIBUTION OF OCCUPATIONS OF 17 LARGE MEN'S WEAR ESTABLISHMENTS
(From Department of Research, National Association of Retail Clothiers and Furnishers)

| | % of Total Personnel |
|---|---|
| 1. Executive | 2.9% |
| 2. Buying | 5.7 |
| 3. Office | 21.3 |
| 4. Selling | 43.1 |
| 5. Receiving and stockroom | 1.7 |
| 6. Shipping and delivery | 4.6 |
| 7. Tailor shop | 12.1 |
| 8. Maintenance | 0.6 |
| a. Janitors | 4.5 |
| b. Elevator men | 2.9 |
| c. Watchmen, etc. | 0.6 |
| Total | 100.0% |

The reports of the Bureau of the Census from the 1927 census of 11 cities studied also shows something of the variation in number of employees from one season to another, by the fact that the total number of employees, in all retail stores in the 11 cities, on July 1, amounted to 383,374, and on December 1 of the same year to 417,125, an increase, covering all lines of retailing, amounting to nearly 10%.

In arriving at these totals it should be kept in mind that they represent not only retail stores that show a high increase

in activity on December 1 as compared with July 1, such as department stores, dry goods, home furnishings, jewelry, stationery, toys, and variety goods, but also such other lines as automobiles, building materials, dairy and poultry products, fruits and vegetables, gasoline, paints, oils and varnishes, sporting goods, trunks, and luggage, in which there is normally a considerably higher sales activity in July than in December.

The problem of a retail store is to keep its personnel expense in line with its requirements from the standpoint of the business. Retail store managers would feel that an ideal condition had been reached if employees could be called in on busy hours and dismissed promptly thereafter, if a full force could be maintained on bright days and cut down on rainy days, and if there were no obligation to continue the employment of any employees beyond the hours of active service.

**6. Concentration of Sales Activity During Certain Days of the Week.**—Not only is there a wide variation in retail sales activity from one season to another as indicated above, but also from one day to another during the days of the week. The retail trading habits of consumers vary considerably in this respect from one community to another.

**7. Concentration of Sales Activity During Few Hours of Day.**—There is also a tendency for retail sales activity to concentrate highly during certain hours of the day, particularly during the period from 11 o'clock in the morning until 3 or 4 o'clock in the afternoon. This is not only the period during which the greatest activity is required within the store but it is also complicated by the fact that this period covers the normal lunch hours for employees. Retail trade is usually very slack in the morning and does not reach its peak of activity until about 11 o'clock. After the rush of the mid-day sales, ending at 3 or 4 o'clock, retail sales slacken down to the end of the day. Studies made of this particular problem have indicated that during the period of the greatest rush on the sales



floors in retail stores the sales staff is usually depleted as much as 25% to 35% at any given time by absences for lunch.

**8. Retail Stores Either Overmanned or Undermanned Most of the Time.**—It is clear that retail stores have unique problems in the management of employees in trying to secure the utmost of efficiency and at the same time the most satisfactory service to the public. The results in most stores are that at some hours there are not nearly enough employees to handle the work properly and at other hours the store is greatly overmanned. At some times under ordinary conditions of employment there are too few employees and at other times there are too many.

Changes in weather, effects of holidays, changing trends in consumer demand, and holding special sales, result in peaks in retail trade in some departments accompanied by almost entire lack of interest in others.

Retail store personnel managers and their employers have long studied the problem of meeting these varying needs for help. Among the methods used to secure proper returns from expenses in wages are the following: attempts are made to have salespeople spend their time, when not selling, in stock and office work. Sometimes employees are shifted from one department to another to meet the demands of the public, but shifting regular salespeople from one department to another does not always work out well. Retail store salespeople trained in one department do not often perform well in another. Most of the larger stores employ a staff of extra salespeople known as "contingent help" or "flying squads," members of which are sent, upon request, to departments in the store in which they may be needed.

**9. Extensive Use of Part-Time Help.**—For a number of years many retail stores, particularly department stores and others catering to women, have developed the practice of employing part-time help. Such employees usually come in for

only a few hours per day, a few days per week, or on Saturdays. These part-time employees consist largely of housewives and housekeepers whose home duties permit taking on extra work during the middle of the day when retail stores are busiest. In many cities high school and college students in great number are employed as retail store assistants during the busy hours of the day, during the evenings, and on Saturdays. In some instances such employment is encouraged by the schools as a suitable means of securing business experience. Satisfactory work in stores is in a few cases given school credit.

In the Pennsylvania report on department stores for 1926 already referred to, the number of part-time employees amounted to more than 8% of the total number of employees. In some of the large metropolitan stores this policy of employing part-time help has been carried very much farther. In R. H. Macy & Co. in New York, it has been stated that at least 20% of the sales force is employed on this basis. There are variations among the different departments. In some departments part-time help amounts to as much as 50% of the total number of salespeople.[3]

**10. Low Wage Levels in the Retail Business.**—There is a very wide range in salaries or wages paid to retail store employees extending from $5 or even less per week up to a hundred times this amount or more, but the great masses of employees in retail stores are relatively low paid. According to the Pennsylvania study made in 1926, the median wage of all employees of 32 department stores in that state amounted in that year to $17.13 per week. When the wages for men and women were separately considered the median for men was found to amount to $26.17 and for women $16.13 per week. The reason for the median for both men and women being so near to the median for women is, of course, the preponderance

[3] S. Gorton, Macy Management Division Takes Active Part in Expense Control, *Women's Wear*, May 28, 1927.



of the number of women employed. There were at least twice as many women as men in these stores.

A very large number of employees in retail stores work at very low rates. In the Pennsylvania study already referred to, nearly 10% of the men and not less than 40% of all the women employed received less than $15 per week.[4]

In the 1927 Trial Census of Distribution taken by the U. S. Bureau of the Census in 11 cities, figures were collected on salaries and wages and the number of employees for that year. The average wages, found by dividing the aggregate of salaries and wages by the average number of employees reported for the year, including all executives and employees, amounted to $1,370, a little more than an average of $25 per week.

There was considerable variation, however, in average salaries by the various kinds of business, as well as for different cities. Thus the average salaries and wages of employees in the variety business amounted to but $797 a year, while the average salaries and wages of employees in automobile retailing establishments amounted to $1,938 per year and the average income of employees in optical goods shops amounted to $2,074 per year.

The wages of saleswomen and of salesmen as well in lines of goods in which both men and women are employed are admittedly low, but the supply of people offering their services to stores has nearly always been more than adequate. The employment of women has a complex effect on wage levels since a very large proportion of those employed in retail stores, from one-half to three-fourths, according to the reports of several investigations, live at home or with relatives. A large number of these women are not required to contribute to the support of their homes and, therefore, use their wages as individual spending money. Some are even partly supported by

[4] Personal Policies of Pennsylvania Department Stores, Department of Labor and Industry, Harrisburg, Pennsylvania, 1926.

other members of their families. These facts cause low wage levels for the whole class of retail salespeople. As a result there is a very real problem for the independent salesman or saleswoman who is self-supporting and an even greater problem for those who have to help to support others as well.

**11. Rising Wage Rates.**—A phenomenal increase in wage rates and wage levels among retail store employees has occurred during the last fifteen years. In common with the rise in wages in many other occupations, retail wages leaped upwards during the period of the World War. Nor did these wage levels fall very much in the depression of 1920-1921, and it is certain that retail wage levels have continued to rise since 1921. There is nothing to indicate that retail wage rates may not continue to rise indefinitely in the future.

Despite these increases in wage rates in retailing, the standards of remuneration are still low as indicated by the statistics cited above. Most retail occupations compare in remuneration to unskilled and semi-skilled work in the industrial field. The high employment of young women who spend from a few months to two or three years in retail store work, bridging the period between leaving school and matrimony, in part accounts for the low average wage rates. Retail store wages also reflect a condition found in other "white collar" and genteel occupations. There is a certain desirability about this kind of work even at less wages than the work of semi-skilled or skilled work in mechanical trades or manual labor.

This may be made clear by a comparison such as follows: The average wage rates for young women engaged in retail store work during the last 25 or 30 years has at all times almost exactly paralleled the wage rates of domestic servants. In 1900, when it was generally possible to employ a domestic servant for $3.50 or $4 a week, that was the going rate of wages for female retail employees. From 1906 to 1910, wage rates for domestic service increased to $6 and $7 per week,



and wage rates for female employees in retail stores likewise rose to these amounts. At the time of the opening of the World War wage rates for domestic service reached levels of $10 or $12 per week, and the wage rates of women in retail stores equaled this amount. Following the period of the World War, domestic servants were able to command wage rates of $15 to $20 per week and female retail employees were also able to secure these rates. Thus retail store wage rates for the rank and file of women have corresponded almost exactly to the wage rates of domestic service, with this important difference that domestic service included board and lodging as well. From an economic standpoint, retail store service is considerably behind household service, but very few would be willing to admit that it is less desirable.

**12. Growing Difficulty of Securing Competent Help.**—Reports from many parts of the country and from many retailers indicate a growing difficulty of getting competent, intelligent, industrious help. It is difficult to say whether this is due to local or general conditions, and whether it may be a problem of individual retailers or of retailers generally. It has been asserted that there is a declining interest in retail store work, particularly in department store work, that high school graduates turn to office work, that young women dislike selling, and that there is a general distaste for the red tape, the rules, and the nagging supervision that characterize retail store work.

Retail stores are still flooded with applicants, but the general run of such employees, so it is stated, is not up to the standard requirements of the stores. A large metropolitan store stated that in 1928 it could hire but one out of five of the persons interviewed. The others were unacceptable. Beginnings have been made by several prominent retail store organizations to induce applications from higher-class people by such methods as having representatives visit high schools and colleges and give talks

on retailing and retail service and by advertising not merely help wanted but actually selling retail store opportunities to prospective applicants for positions.

**13. High Rate of Turnover.**—One of the most difficult problems in retail store employee management is the high rate of employee turnover. This is in part due to the character of the business which varies from season to season, from month to month, and, in fact, from hour to hour, but in part to the type of help employed and in part to the employment policies of retail stores. It is not an uncommon thing to find that the number of persons employed and the number of exits from employment within a year is greater than the average number employed. There is no precise general information as to the amount of turnover of employees in retail stores. Such studies as have been made in the department and specialty store field indicate rates of turnover of from 10% to more than 100% with an average of 45% to 50% per annum.[5] There are, as a consequence of this high rate of turnover, only a small percentage of people in this country who have been employed in retail stores in any given concern for several years. If the figures for department stores are typical, then nearly one-half of all retail store employees leave their employment every year.

Table 24 presents what is probably a typical distribution of turnover in department stores by causes—grouped according to whether they are avoidable, unavoidable or involuntary, that is, dismissals.

The turnover rate found in the retail business is much too high. Some parts of it, due to avoidable causes, can be eliminated. That turnover deserves more vigorous attention and action than has so far been given is obvious. The losses resulting from a high turnover rate have been adequately discussed in the textbooks on labor administration. There is no need to go into detail here on that subject. Mention, however,

[5] The percentage of turnover is computed by dividing the number of employees leaving by the average number employed.



may be made of the principal items deserving the reader's attention. When an employee who must be replaced leaves the store, the retail store suffers the following losses:

1. The loss of an employee whose experience and training must have developed some degree of skill and efficiency. This loss goes on until the new employee has developed at least to the same point of ability.

2. The cost of hiring the new employee. This amounts to something and in the aggregate means a very real burden to the retail business.

3. The training of the new employee likewise takes time and costs something as well.

TABLE 24. CAUSES OF LABOR TURNOVER AMONG DEPARTMENT STORES—TYPICAL DISTRIBUTION OF CAUSES AS FOUND IN A GROUP OF SEVERAL WELL-MANAGED STORES

| | | |
|---|---|---|
| Avoidable Causes | | 19.70% |
| Wages unsatisfactory | 0.41% | |
| Work unsatisfactory | 1.80 | |
| Working conditions unsatisfactory | 1.80 | |
| Working relations unsatisfactory | 0.04 | |
| Better opportunity elsewhere | 7.60 | |
| Reason not known | 8.00 | |
| Miscellaneous | 0.05 | |
| Unavoidable Causes | | 19.00 |
| Ill health | 2.57 | |
| Leaving city | 6.45 | |
| Married | 1.39 | |
| Home conditions | 5.86 | |
| Returning to school | 1.95 | |
| Miscellaneous | 0.78 | |
| Involuntary Separations (Dismissals) | | 61.30 |
| Incompetency | 4.35 | |
| Attendance | 2.02 | |
| Insubordination | 0.28 | |
| Dishonesty | 0.71 | |
| Unsatisfactory references | 0.97 | |
| To decrease force | 13.25 | |
| Temporarily employed | 37.40 | |
| Physical reasons not adapted to job | 0.73 | |
| Miscellaneous | 1.59 | |
| Total | 100.00% | 100.00% |

4. Probably the greatest loss resulting from a high rate of turnover is the loss in sales and of customers which might

have been saved if the original employee had continued in service on an efficient basis. There is no way of computing what this sales loss is. There is no way of measuring the irritation and ill-will created by improperly trained retail employees even when customers continue to give the store their patronage. If measurable, the totals would probably be appalling. In the on-rush of the retail business, still successful retail store managers have for the most part neglected such considerations.

If it be assumed that new employees require on the average two weeks in which to learn the routine and other standard operations required of them, then the total cost of training is the average salary for two weeks multiplied by the total number of new employees inducted into the business. If the average salary paid new employees is $15 per week or $30 for the two weeks, then it is easy to compute the cost of this item by multiplying by the total number of persons employed during any given period of time. To this sum, however, there should be added the cost of the services of the training department, if any, the value of the time of department executives given to explaining things to the new employees, the hindrance the new employees give the older employees; and the ill-will of customers. It is more than probable that as the conditions of retailing become more definitely circumscribed by keener competition, and as chances of profits decline, the attention so much needed for this problem in the past will be forced in the future.

**14. Unionization of Retail Store Employees.**—Unionism has not been an outstanding factor among retail employees but there is some unionization and such as it is shows great vitality. As far back as 1863, there was organized among women employed in stores and factories a society known as the "Working Women's Protective Union" whose aim it was to help raise the wages of working girls and women, but more particularly to aid members in collecting sums due them from



employers. During the early days of woman labor in stores and factories in this country, considerable fraud was practiced and many employees were beaten out of their wages.[6]

There were regular unions among salespeople and for salespeople exclusively as early as 1882. The first organization, so far as is known, was established in New Orleans. In 1882, seven local unions were drawn into the big general organization known as the Knights of Labor. In 1890, these withdrew and were forthwith united with the American Federation of Labor.

These early pioneer unions of salespeople were generally called "Early Closing Societies," because their main object was to secure more reasonable working hours. Working hours in the early days of retailing and even down to the 1880's, were outrageous—from 14 to 16 hours every day. When joined with the American Federation of Labor in 1890, the name, "Retail Clerks' National Protective Association," was adopted, which was later changed to "Retail Clerks' International Protective Association."[7]

The objects of the Retail Clerks' International Protective Association as expressed in its preamble are: "To improve the conditions of retail clerks, secure reasonable compensation, regulate apprenticeship and other methods of getting new employees endangering wage standards and working conditions, oppose long hours and Sunday labor, disseminate useful information by means of lectures, pamphlets, and other literature, demand comfortable seats for women clerks, and equal pay for equal work, oppose child labor and to provide a benefit fund for sick, aged, and indigent retail clerks."

Retail employees' union activity has been greatest in grocery, shoe, furniture and drug stores, although the Association has a sprinkling of memberships in department stores and even in the 5 and 10 cent stores. Its activity is now most

[6] J. H. Hyslop, Shop Girls and Their Wages, *Andover Review*, Vol. 16, p. 455.
[7] *Retail Clerks' International Advocate*, September, 1906.

apparent in the chain store field where the resistance to unionization is likely to be very high.

The Retail Clerks' International Protective Association claims to have locals in nearly every important city in the country. There are said to be more than 1,000 in the United States, and others in Canada. Since 1891, it has published a monthly organ, the *Retail Clerks' International Advocate.* It employs the strike and boycott and has, with the help of the American Federation of Labor and outside organizations, been successful in many contests.

**Outside Organizations Favoring Better Conditions for Retail Store Employees.**—Considerable outside support has always been available for retail store employees for the purpose of bettering their condition. A great deal of work was done for salespeople before they were organized, and in lines where organization has not been effective such associations as the "Women's Educational and Industrial Union" of Boston, an organization of the same name in Buffalo, and the "Protective Agency for Women and Children" in Chicago, have been of material assistance. During recent years the "Consumers' League" and the "Women's Trade Union League" have interested themselves a great deal in better conditions for store employees. These organizations have even gone so far as to assist materially in efforts to get the salespeople to organize into unions, and to encourage saleswomen to make demands for higher wages, shorter hours, seats back of the counters, and other improvements in working conditions.

Unions among salespeople seem to be well-organized in other countries. "The National Amalgamated Union of Shop Assistants, Warehousemen, and Clerks," "The Amalgamated Union of Cooperative Employees," and the "Irish Drapers' Assistants' Benefit and Protective Association," are well-known British organizations numbering thousands of members.



15. **The Minimum Wage in Retail Stores.**—To meet the problem of low wages prevalent in retail stores, the minimum wage principle was proposed some years ago. The suggestion to adopt a minimum wage came from three well-defined sources, viz.:

1. From progressive, far-seeing store managers. Before there were any laws passed or even suggested in this country, there were several well-known stores which had voluntarily adopted minimum wage levels.
2. From retail store employees, clerks' unions, and so on.
3. From social workers, economists, and legislators seeking general public legislation setting minimum wage levels.

There was never absolute uniformity of opinion among any of these classes favoring the minimum wage principle. Many retail stores and retailers' associations were opposed not only to specific methods, but to the principle itself. A large number of retail salespeople were undoubtedly opposed to or at least indifferent to the establishment of the minimum wage. Trade unions, including the American Federation of Labor, were lukewarm about it. Even economists and social workers differed widely on the subject. In spite of the diversity of views, there was considerable progress made toward the minimum wage idea, particularly by legislation, from 1912 to 1920.

**The Argument for a Minimum Wage.**—In this country, up to the present, minimum wage laws have been proposed only for women and children. It has been felt that circumstances are against the woman and child employee, and that, when left to natural market operations, they are not able to get wages high enough to support themselves. The arguments usually cited for a legal minimum wage are as follows:

1. If wages are lower than the cost of living, society must make up the difference in some way to the individual—hence, why not directly through the wage?
2. Less than a living wage causes deterioration of the indi-

vidual, and, therefore, of society. Poorly fed, poorly clothed, and poorly housed individuals make poor citizens.

3. A better wage means greater efficiency and, to a certain extent at least, a better and bigger product.

4. The strain of living from hand to mouth is removed from the wage-earner, and he or she becomes more contented, more happy, and, therefore, more efficient.

5. A minimum wage eliminates cut-throat competition among business competitors. It gives to each more equal opportunity since each must pay the same minimum wages.

6. Parasitism will be eliminated. It is claimed by some that retailing does not bear its own burden of expense, that it must have cheap labor in order that goods may be sold to the consumers as cheaply as at present. Raising the wages will, therefore, raise prices. Retailing will not then be in a position of drawing help, in the form of underpaid labor, that must be supported by other classes of society.

7. Finally, women and children, it is claimed, are not able to bargain on equal terms with their employers for a living wage, and, consequently, employers sometimes take advantage of their weakness and pay them less than their services would bring if properly marketed.

Merchants who favor a minimum wage go further and point out that, as a matter of expediency, no merchant trying to do a legitimate retail business should oppose it. The tendency of the public thought at the present time seems to be toward a minimum wage. To oppose this thought is to antagonize the public upon whose support the retail store depends directly for existence. Merchants favoring the plan also hold that the increase in wages will result in a more careful selection of employees, and that lack of employment for the younger and more inexperienced people will force the public to establish systems of education to fit them for the minimum wage. In the long run, it is felt that such increases as are made necessary in retail expenses because of higher wages can and will be shifted to the consumer.



**The Arguments Against a Minimum Wage.**—The arguments commonly used against the minimum wage are as follows:

1. The inefficient will not be hired at all if a wage higher than they can earn must be paid. Thus many people will be deprived of earning anything, or of contributing anything to the support of their families.

2. The inducement to do better work and to enter higher classes of employment will be lessened. It is felt that employees will simply lean back on the minimum wage and wait for the state to boost that payment rather than work individually for better things.

3. Stores depending on business drawn from near the boundary lines of states and located in a state where a minimum wage law is put into force, will be hurt if minimum wage laws are not also put into effect in the nearby states. In other words, stores so located will lose business to stores across the line in other states.

4. The minimum wage will tend to become a maximum.

5. "If the state fixes a minimum wage, it is logically bound to furnish employment at that wage."

There seems to be no question that as long as there are plenty of prospective salespeople to select from, the more inefficient will lose their positions under a minimum wage law, if their present wages are not equal to the minimum proposed. But a reasonable administration of a minimum wage law—a law that permits reasonable exceptions, under carefully worked out restrictions—will provide special classifications and wage conditions for such employees. One of the results that seems certain is that the public will then have its attention called to the necessity of adopting some form of specific education for the work of retail selling. This would, in the long run, be a

most desirable thing, not only for the salespeople themselves, but also for the retailers and the public.

**A Summary of the Minimum Wage Arguments.**—That a minimum wage will reduce initiative and ambition and that the minimum will tend to become the maximum, are arguments that have been used against all wage minimums set by trade unions for years. These arguments have never been clearly proved for any trade, and in a business like selling where personality counts for so much, and where the means for measuring efficiency are so easy, it will be much harder to prove it than for most other lines of work.

It does not appear clear that the state must furnish employment if it sets a minimum wage, any more than that it should engage in making pure food or drugs simply because it passes a pure food and drug act, or that it must run steam engines simply because it fixes certain requirements for their operation. The view represented by this argument against the minimum wage results from confused thinking about the function of the state as a regulative body. Whether a minimum wage is a necessary form of regulation or not, it must be clear that there is the necessity for rules in the conduct of business as well as in any other social activity. The state exists for the purpose of protecting the rights of all, and in the performance of this function it must make rules and enforce them. Some rules may be made unwisely, some regulation may be unjust or unnecessary, but such errors do not constitute an argument against the principle of regulation.

**The History of Minimum Wage Legislation.**—The minimum wage by legislation originated in New Zealand and Australia. The first act of the kind was passed in New Zealand in 1894. Victoria, Australia, came second in 1896. England passed a comprehensive minimum wage act in 1909.

There followed a period of increasing interest in this country during which a number of commissions were appointed to study the minimum wage. Massachusetts passed the first minimum wage law in 1912, and was followed in 1913 by eight other states. During the next two years more states enacted similar laws, but during the war there was slackening of interest. One state, Arizona, passed a law in 1917, and the District of Columbia act was passed in 1918. By 1927, a total of seventeen states had experimented with such legislation.



These state laws have in several cases been contested in the courts. In a few cases lower courts declared the minimum wage laws unconstitutional but the state supreme courts generally declared them legal. In one case, carried from the State Supreme Court of Oregon to the United States Supreme Court at Washington, the decision of the Oregon Supreme Court was reaffirmed in 1917, favoring the minimum wage law. Later, in 1923, the United States Supreme Court reversed itself in a District of Columbia case known as Adkins *v.* Children's Hospital, 261 U.S. 525. As stated in a monograph on the subject, published by the Women's Bureau of the U. S. Department of Labor,[8] "After a stormy career minimum wage laws seemed to be in a very dubious position as far as mandatory enforcement of wage rates is concerned." The District of Columbia decision has had a far-reaching effect on all minimum wage rates throughout the country. Two states, Nebraska and Texas, have repealed their laws. The laws of Arkansas, Arizona, Porto Rico, Kansas, and Minnesota have in one way or another been nullified since that decision. The State of Wisconsin has modified its law so as to meet the conditions of that decision. At the present writing the administration of these laws in most of the cities is largely inactive.

For one thing, the economic conditions prevailing at the time when minimum wage rate laws were proposed have largely changed. Wages have increased and standards of living improved. There is not the same social necessity for minimum

[8] The Development of Minimum Wage Laws in the United States, 1912-1927, Bulletin of the Women's Bureau No. 61, U. S. Department of Labor, Washington.

wage legislation. It is probable that when, and if, wages again decline, then minimum wage legislation, or something that will take its place, will again find an important position in social legislation.

**Need for Systematic Organized Management of Employees.**—The variety of personnel problems as outlined above, their difficulty and complexity, all indicate the necessity for well-established systematic organized personnel management in retail stores. There is every reason for the view that specialized administration of personnel is as important to the success of a retail business as specialized management of merchandising, of finance, or of delivery. It is indeed strange that this fact did not impress itself on retail store practices many years ago.

In the earlier days of retailing in small stores the owner-managers attended to the employment of help and all other relations with employees. As stores grew larger and problems of employment and personnel became more pressing, department heads generally assumed responsibility for the hiring, training, remuneration, and firing of the employees within their departments. The earliest specialization in management of personnel matters within department stores came with the establishment of employment offices under that busy executive controlling a multitude of matters of store operation, the store superintendent.

A few retail stores had well-organized personnel work as early as 1910, but most retail personnel organizations, as such, have come into existence since 1920. Probably a majority of modern personnel departments operate, as did the old-time employment offices, under the store superintendent. In not a few cases, however, personnel management has been deemed of sufficient importance to be given the rating of a separate division working directly under the general manager and in a position coordinate in responsibility with the other divisions



of merchandising, publicity, store operation, finance, and control. Some of the largest and best-organized stores in the country now have personnel divisions so organized.

**Functions of a Personnel Division.**—In general, the functions of a personnel division, as at present organized in up-to-date retail stores, are to secure and maintain a loyal, stable, efficient staff of employees; to establish uniform administration of personnel policies throughout the entire store; and to secure better results from employees at lower costs than possible in the older types of store organization.

The head of the personnel division is generally made responsible for all employer-employee relationships in the retail store. He is or should be definitely responsible for all payroll expense. His duty is to plan labor needs with the help of department heads throughout the store in the same way that the merchandise department plans to meet merchandise needs, the publicity department plans to meet advertising needs, and the finance department plans to meet the financial needs of the business. Finally, the personnel division is or should be responsible for the wage standards, wage rates, and the determination of wages.

In carrying out these general policies, the personnel division must of necessity work in cooperation with the other divisions of the store so as to secure the intelligent cooperation of the executives of all departments, direct and specific information on the working of policies established, advice on new or proposed policies, and so as to be able to assist in solving special personnel problems as they may arise in the various parts of the store.

**Outline of Functions of a Retail Personnel Division.**—The specific functions of the personnel division differ considerably from store to store. The scope of its possible activities may be illustrated by a chart tabulating its various functions and the lines of work that might be undertaken.

Usually the work of a personnel division in carrying out its employer-employee relationships is divided into at least six departments as follows:

I. Employment
II. Remuneration and Other Incentives
III. Training
IV. Supervision
V. Welfare Work
VI. Employees' Cooperative Activities

The accompanying chart (Figure 48) presents a check list of typical activities undertaken in each of these six departments.

**Costs of Personnel Work in Retail Stores.**—The conduct of an employment office in a retail store, including salaries, rentals, and necessary supplies, usually ranges from .07% to .11% of net sales. Employee training in department stores costs from .04% to .12% of sales. Health and welfare work expenses average from .06% to .08% of sales. All other activities of personnel work range from .06% to .13% of net sales. The total expenses of personnel work in department stores therefore ranges from .25% to .50% of net sales with an average close to .40% of net sales. Most of the expenses for personnel work are for salaries. The remainder consists largely of rent and supplies. Generally speaking, larger stores expend greater amounts for personnel work, not only in dollars but also in percentage of net sales than do smaller stores. There are notable exceptions to this, however, for there are certain small stores in which the owner or managers are deeply interested in the possibilities of personnel work, which spend more in proportion to sales than some of the larger stores, while there are some of the larger stores in the country that definitely economize in personnel expense.

**Measuring the Results of Personnel Work.**—In the final analysis, every activity in a retail store must be measured by its



FUNCTIONS OF A RETAIL PERSONNEL DIVISION

I. EMPLOYMENT
- a. Develop sources of supply of prospective employees.
- b. Secure applications.
- c. Arrange and hold interviews with applicants.
- d. Apply tests for rating of applicants.
  - 1. Intelligence tests
  - 2. Psychological tests
  - 3. Trade tests
  - 4. Performance tests
- e. Check up references.
- f. Hire employees and place in service.
- g. Arrange all transfers from one department to another.
- h. Be responsible for all discharges and determine reasons therefor.
- i. Make analysis of positions to determine employee requirements.
- j. Maintain a contingent force of employees.

II. REMUNERATION AND OTHER INCENTIVES
- a. Set salaries and salary increases.
- b. Make promotions.
- c. Other incentives.

III. TRAINING
- a. Provide thorough systematic training of new employees on:
  - 1. Store system, store policies and rules, store history, and routine
  - 2. Error analysis and correction in selling, delivery, and other departments
  - 3. Salesmanship
  - 4. Stock-keeping, location of goods, care of display, records
- b. Make provision for the instruction of employees in knowledge about:
  - 1. Merchandise
    - (*a*) General courses
    - (*b*) Special instruction on new goods
  - 2. Fashion and fashion trends
    - (*a*) General courses
    - (*b*) Specific fashions and coordination
- c. Organize training for new employees going into non-selling departments.
  - 1. Cash register operation
  - 2. Elevator operation
  - 3. Cashiering
  - 4. Inspecting and wrapping
  - 5. Delivery
  - 6. Accounting
- d. Assist in organizing, outlining, and conducting executive training work.
  - 1. For present executives
  - 2. For employees seeking promotion
- e. Provide classes in common branches for employees whose elementary schooling may be deficient in:
  - 1. Writing
  - 2. Spelling
  - 3. Arithmetic
- f. Serve as the store's official representative in working out cooperative plans with educational institutions.
  - 1. Public continuation schools
  - 2. Part-time arrangements with high schools and colleges
- g. Organize and supervise training conducted by department heads.
- h. Supervise, sponsor, or coach other systems used to train and follow up work of new employees.
- i. Advise employees on reading and home study.

IV. SUPERVISION
- a. Be responsible for discipline.
- b. Have charge of employee records.
- c. Conduct regular periodical reviews of progress made by all employees.
- d. Follow up progress of new employees.
- e. Hear complaints and grievances and arrange for fair adjustments.
- f. Be responsible for proper and strict adherence to all requirements of labor laws.

V. WELFARE WORK
- a. Have charge of physical examination service.
  - 1. For new employees
  - 2. For special examinations of employees in service
- b. Have charge of dispensary and clinics.
  - 1. Medical
  - 2. Dental
  - 3. Optical
  - 4. Chiropodist
- c. Be responsible for investigation of absences.
- d. Conduct the store's home nursing service.

Figure 48. Outline of Retail Personnel Functions

V. Welfare Work—(*Continued*)
- e. Supervise, so far as employees are concerned.
  - 1. Heating
  - 2. Lighting
  - 3. Ventilation
  - 4. Cleanliness
  - 5. Safety work
  - 6. Drinking water
  - 7. Causes of fatigue
  - 8. Vacations and vacation schedules
- f. Conduct the lunchroom or cafeteria for employees.
- g. Supervise employees' rest rooms, wash rooms, and toilets.
- h. Supervise employee recreations.
- i. Group insurance.
- j. Loan funds.
- k. Thrift work.
- l. Old-age pensions.
- m. Legal advice.
- n. Employee discounts.
- o. Advice on private problems.
- p. House organ or store paper.
- q. Fiction library.

VI. Employees' Cooperative Activities
- a. Mutual benefit associations.
- b. Social clubs.
- c. Musical organizations.
- d. Athletic associations.
- e. Vacation camps.

Figure 48 (*Continued*)

effects on retail sales and net profits earned. This principle holds true for all branches of personnel work. Specialized personnel organization must do a better job than unspecialized, decentralized personnel operation or it does not deserve to exist. The test of increased sales and increased profits for many kinds of work is obviously difficult to apply. There are employees who perform exceedingly important work for a store but who have no direct contact with selling and no opportunity to influence either the sales or the net profits directly. Any attempt to apply the measure stick of sales or of net profits in such cases would be futile, if not indeed mischievous. Sales and net profits must be the measures of the work of salespeople, buyers, and any other employees who contribute directly thereto. Other measures must, however, be devised for employees who are not actively engaged in work which can be measured by these fundamental bases. It may not even be possible to use the measure of sales without qualifications for salespeople. Other units of work need considerations in measuring the effectiveness of retail selling, such as the number of sales per salesperson, the average value of goods sold per sale. From these records the personnel department may be able to compute the cost per sale.



Other important measures applicable to salespeople include the number of errors made, the number of sales and amounts of goods returned for exchange or adjustment, regularity of attendance, and so on.

Sometimes special measures are applied to the work of retail salespeople, such as records of the numbers of suggested sales, of the number and character of want slips turned in, of the number or declines in the number of complaints received from customers for which the salespeople may be responsible, and such matters as department planning, merchandise displays, orderliness of stocks, and so on.

In the non-selling departments it is usually possible to relate the activity of the employees to their achievements by definite units of work, such as the number of telephone calls handled, the number of letters written, the number of ledger postings, the number of charges authorized, the number of packages wrapped, the number of deliveries made, and so on.

In an effort to secure a measure of the work of employees, some stores place a great deal of emphasis on accuracy and freedom from error. It is the policy in some of the best-operated stores to check up the causes of every error and of every complaint. In such stores measurements of the effectiveness of employees take the direction of checking the trends in numbers of errors, whether increasing or decreasing. Careful account is kept of the number of errors made in sales checks, of register shortages, of wrongly filled orders, of errors in delivery or of failure to deliver, of errors in inspection, of mistakes in adjustment, of errors in correspondence, and so on.

The important thing is, of course, that there is need for definite measurement of the work of the employees in a retail store. Making such measurements may involve some red tape and record keeping. This may be urged as the reason for failing to keep such records, but the tendency in progressive stores seems to be more and more in the direction of actual counting and record making of the significant units of work

output of every employee in the store. This trend is entirely fair and favorable for it means that the relations of employers and employees will become less matters of personal opinion and more of objective facts. This should mean greater fairness for both sides.

**A Courageous, Enlightened Retail Store Employee Policy.**—The growing appreciation of the importance of proper relations to personnel as an essential factor to the success of a retail store and the desire to assume fuller social responsibility for personnel problems are leading forward-looking retail executives toward more advanced views regarding personnel organization and management. Broad and liberal policies relative to employee management are as essential in the retail business as they are in any other industry. The elements of a courageous, enlightened retail store employee policy which will command the respect not only of employees but of the public as well may be outlined as follows:

I. The problems of personnel management within retail stores deserve careful, special consideration. The hiring, training, supervision, and remuneration of employees is indeed as important as the buying of merchandise, the keeping of accounts, advertising, or other functions of a retail store. It should be the obligation of some person in every store of every size to assume the responsibilities for specialization in personnel matters. In order that a personnel department or division in a retail store may succeed, it is essential that all other heads of of departments and executives be informed about it, and trained to use these services properly and to give their full cooperation.

II. An applicant for a position, whether hired or not, is entitled to a decent reception and courteous treatment. Employment department clerks tend to develop autocratic, overbearing, impatient attitudes toward those seeking positions,



particularly during periods when no help is wanted. Such attitudes in modern business are inexcusable.

III. When a person is employed he is entitled to specific, definite information as to:

a. What work will be required of him.
b. Amount of wages to be received, when and where paid.
c. What the chances are for promotion and how such promotions may be obtained.

IV. An employee is entitled to a fair wage. Retail store salaries and wages should be fixed as follows:

a. New adult employees should receive the basic wage rates determined by labor market conditions. The forward-looking store will pay rates that approximate the top of the market rates rather than the lowest or minimum rates. This will attract the best class of employees and develop goodwill for the store.

There are altogether too many retail stores so badly conducted and so little needed in their respective communities that they continue to exist solely by exploitation of their employees. Were they to pay going rates of wages and otherwise properly provide for their employees, they would fail. There are other, more successful retail institutions under managers who strive to squeeze every possible penny of profit out of their employees. The former type of retail store, unable to exist without exploiting its employees, has neither a moral nor a social right to continue in business. Retail managers of the grasping sort who drive their employees beyond reasonable bounds of work and at the same time pay them as little as possible, mock and jeer at our present economic civilization which depends for its continued success on a high wage rate for all employed. A business that does not first see that its employees are well paid before any profits are taken by its owners does not deserve public patronage nor does it deserve to exist. When men go into business they should be prepared to undertake the responsibilities of business.

b. Individual rates for individual people in the service should

be based on productiveness measured from the basic standards representing usual, ordinary performances.

c. Employees should be encouraged to earn higher individual rates and should be:

1. Shown how to do it.
2. Checked up periodically to insure that the efforts be made.
3. Granted increases as soon as they are earned and without necessity of asking for them.

d. Juniors and learners require different consideration. Their wage rates need not correspond to the basic rates so long as their employment yields them other valuable returns and so long as the business is not operated on the policy of maintaining its employee staff by this means at less than normal costs.

V. A retail store owes its employees suitable working conditions including:

a. Customary hours of labor. Overtime, unless in case of absolute necessity, is a sign either of bad management, poor planning of work, or of employee exploitation.

b. Comfortable working conditions as to space, working equipment, floor conditions, and comfortable seating for employees when their work does not require them to be on their feet.

c. Suitable provision of clean, sanitary lunching places, lunchrooms, or cafeterias.

d. Adequate, private locker space for the wraps of each employee with provision for drying wet garments in inclement weather.

e. Decent, clean, sanitary wash rooms and toilets in sufficient number and conveniently located.

f. Rest rooms with provision for privacy and quiet.

g. Adequate lighting, heating, and ventilation according to modern standards.

h. The most approved and best obtainable provisions for the maintenance of safety.

It may be safely assumed that most retail store managers are desirous and even anxious to provide the elemental conditions of comfort and convenience for their employees. There are, however, altogether too many retail stores which do not provide these conditions and are not likely to do so until they are prescribed and enforced by law. Even where there are reasonable laws there are frequent infractions. Enlightened employee administration should certainly seek to maintain a plane far above the boundary line of legal penalty for failure to comply with modern social standards.



VI. The retail store owes its regular employees continuous employment. In view of the variations in consumer demand from season to season, this is a difficult condition for retail stores to face, but awakening social responsibility to workers will probably, at no distant date, require this point and forward-looking retail store managers would do well to be in advance of the trend. The high rate of labor turnover now existing in retail stores, particularly in the larger institutions, is an economic scandal. The responsibility for this cannot continue to be shifted indefinitely in the future as it has been in the past.

a. There is still a sad lack of proper responsibility among many retail store managers in relation to the dismissal of employees. The system of dismissing employees without advance notice, which still prevails in many stores, is autocratic, unreasonable, and disreputable. Making such methods of dismissal legal by including conditions in the application blank providing for such dismissal without further obligation on the part of the employer does not make the system fair.

b. A system of payment of dismissal wages sufficient in amount to cover reasonable periods spent in looking for new positions is a social requirement now established in some European countries and deserves consideration here.

c. Demand for extra help during rush periods should be supplied from part-time workers who prefer brief periods of work and who understand the conditions of employment.

VII. A retail store, so far as possible, should supply the opportunity to its employees for learning, for training and, when merited, for securing increases in earnings and promotion. A retail store that cannot supply these conditions lacks one important social reason for existing. It should give way to retail stores that can give opportunity to their employees.

VIII. Every retail store, no matter what its size, should provide ways and means to insure every employee an opportunity to get in touch with the management of the concern at any time.

a. Suggestions for the improvement of the business should not only be welcomed and encouraged but should be enlisted as an obligation of every position.

b. When there are complaints there should be means provided for unbiased adjustments.

c. When actions or decisions are taken against any employee there should be full explanations of such actions or decisions.

d. Local retail trade understandings such as tend to fix or standardize wage rates, oppose employment of each other's workers, and establish black lists of workers considered undesirable, are both unsocial and illegal. Such association acts constitute conspiracy. They are wrong in principle and unsound in business policy. Any attempt to solve employment problems by any form of agreement limiting the possibilities of progress of employees in any degree are evil. The counterpart of an association of retail store managers to regulate employment conditions is a monopoly of manufacture of necessary goods or of a powerful union of employees. A square deal implies equality of bargaining power. There is no equality for the employee as long as any form of agreement among employers exists.

e. Very few retail store employees are interested in the possibility of sharing in the responsibilities of management. The Filene Cooperative Association in Wm. Filene's Sons Co., of Boston, appears to be a notable exception, but such share in management as is effected there has been developed over a period of many years. It has had the sympathetic support of the management. It appears to have been almost a point of ambition with the owners of the store to make it succeed. Work councils and other forms of employee organizations have never been very successful in a large scale in retail stores. An active, efficient personnel division, a genuine interest in employee welfare, and an open door to the manager's office at all times to all employees is a solvent for tensions and a preventive substitute for laborious complicated employer-employee councils, senates, committees, associations, unions, and so on.



IX. Retail stores of whatever size and number of employees, should assist their employees in making savings and in insuring them against the hazards of life.

a. Individual programs of thrift are becoming more and more difficult to carry out. They are as beset by pitfalls and dangers as ever. The executives of a retail concern with their business experience and judgment are, or should be, much better fitted to advise and provide suitable means of protection of savings than most individual employees. Such provision is a duty particularly of larger retail stores.

b. Retail store managers ought to consider themselves responsible, whether legally required or not to do so, to make provision for their employees on such lines as the following:

1. Accident insurance
2. Illness, disability, or incapacity insurance
3. Old-age pensions
4. Life insurance under either group or individual plans

It is not intended to suggest that the entire financial burdens for provisions such as the foregoing should be met by the employers but it is the purpose to urge that the initiative for these provisions should come from the employers. If it is economically impossible for employees to purchase such protection out of their own earnings then, clearly, it is the responsibility of the industry in which they are employed to make suitable provision. An industry unable to make such provisions is frankly

parasitic. No person interested in retailing desires to see this trade so classified. It can and will bear its own burdens.

X. A retail store owes its employees fair, human treatment.

a. The control of employees by fear is a relic of the Dark Ages. A manager of employees who cannot secure enthusiastic diligence of his employees by intelligent direction and education, but must rely on threats and punishments and other forms of instilling fear, has no right to be an executive.

b. The use of detectives, spies and other secret methods of checking up employees, either as to their work in the store or their use of time outside of the store, is a sign of weakness as well as an unsocial development characteristic of big business that must be deplored. Founded in suspicion, such practices quite naturally breed suspicion and hatred. The managerial policy "To get something on the employees and then to ride them hard," as a means of personnel management is detestable and contemptible.

c. The policy found in some retail organizations of keeping various divisions and departments, as well as individuals, at enmity with each other in the belief that this promotes life and activity in the business, is a strange commentary on the crudity of mental reactions among the managers of such stores.

d. One of the most sinister developments in large retail organizations is the preference given by the managers to the "tuft-hunters" and "yes men," who court their favor. Few stores are free from this evil. Many managers of retail stores, like the Kings of old, seem to believe that they can do no wrong. They cannot bear differences of opinion, no matter how honest, from their employees. Snobbishness and flunkeyism thrive in retail stores. Harmonious organization too often means nothing but servile, mealy-mouthed agreement with the management. Store managers and owners sometimes prize such agreement, in fact, if not in principle, more highly than efficiency and profit.

e. Another evil widely prevalent in retail stores, particularly among department managers and other sub-executives, is the tendency to snatch the ideas of their assistants affecting the welfare of the business, rush them to the heads of the concern and offer them without giving credit to their real sources.



f. There are retail stores in which the general manager and other head executives appear publicly as the very embodiment and soul of fine ideals, gentleness, and courtesy. By their very presence and personality, they win the confidence of outsiders and employees alike, but under them, in their stores, there are executives who manage the business with mailed fists, and because of the benign and friendly attitudes of the chief executives the despotic and sadistic rule carried on within their stores is all the more unbelievable.

g. No development in the retail business has proved more unfair to worthy employees or more disastrous to the morale of the organization and eventually to the business itself, than nepotism. What must be the feeling of an able, ambitious, retail executive toward building up a business which he knows full well will be turned over to the owner's son as soon as the latter makes up his flunks at college and receives his degree or reaches his majority after an apprenticeship in luxurious living! Favoritism of any kind has no place in modern personnel management.

XI. Decent, reputable, progressive, retail store management should occupy a position in relation to its employees considerably in advance of what is considered socially and legally necessary. Retail managers with broad viewpoints have always favored the improvement of the conditions of their employees and have consistently maintained their stores above the levels set by laws and ordinances. It is an historical fact, however, that every progressive step for improving the condition of retail store employees has been vigorously opposed by the rank and file of retail merchants. There can scarcely be any pride in occupying a position at the margin of social necessity with constant guilt of frequent violation, warnings, and convictions. A far-seeing employer will not only observe the laws of the state and municipality on child labor, minimum wages, educational requirements and safety provisions, but will take his stand quite definitely in advance of the legal necessities.

XII. Finally, retail store management should provide:

a. Adequate supervision of employees to insure that they are instructed on what to do, and that they actually accomplish what has been reasonably set for them to do. Humane management is not lax management. There is, as we have seen, a heavy responsibility on employers. The employee's responsibility to his employer is also very definite. There should be no shirking. Effective discipline is as important in a social policy as old-age insurance or fair wages. The loafer, the shirker, the waster, and the dishonest employee need to be held to strict account. This is the quid pro quo for the full discharge of responsibility of the employer.

b. Establishment of general regard throughout the organization for courtesy and mutual respect, first of all, toward all visitors and customers of the store, but, fully as important, among the employees of all ranks toward each other. All forms of bullying in all branches of the work, all public call-downs, all forms of disrespect, should be prohibited.

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# CHAPTER X

## RETAIL STORE EMPLOYMENT SERVICE

The first requisite of scientific employment service is definite knowledge of what jobs are to be filled, what work is to be done, how it is to be done, and what qualifications are required on the part of the people who are to do this work. Such information is essential to good employment service in either a small or a large store. The owner-manager of a small store usually does his own hiring. He has, or should have, first-hand knowledge in some degree of all of these points. His knowledge grows out of his daily contact with the affairs of the business. The employment department in a large concern must obtain this information in a systematic way for the purpose of carrying on its work properly. This information when compiled in detail in writing by jobs or positions is termed a "job specification."

When the purchasing agent buys supplies or when the advertising manager takes space in the newspapers, he does so with a definite idea of the purposes to be served, the quantity required, and the prices to be paid. Not to do this would be wasteful and foolish. Similarly, the employment manager needs to know what work is to be done on which to base his selection of proper employees. Small stores may not require written statements of specifications for each position in the store but large retail institutions do need such formal and definite records. Small stores that do have them properly written up find them advantageous.

**The Job Specification.**—The job specification is simply a definite statement in writing for any given job or position telling:





1. What is to be done, item by item, listed preferably in the order of operation, but sometimes in the order of learning.
2. How these duties are to be performed.
3. What qualifications are required to perform them.
4. What the standards of production or achievement are, that is, how much work is expected per hour, per day, or per week, or how much work is required per dollar of pay.
5. What the cost should be.

Job specifications are usually written up on sheets or cards, one set of specifications per sheet. Not infrequently one side of the sheet or card is used for listing what is to be done and how to do it, while the other side is used to list the qualifications required of the employee such as age, sex, education, experience, physical strength, and so on. Practice varies as to the form in which the job specifications are set up.

**The Job Analysis.**—Almost invariably when retail stores adopt the plan of committing job specifications to writing, numerous cases are discovered in which changes and improvements may be made not only in the list of things to be done but also in methods of performance. This illustrates one of the most important values of preparing job specifications apart from their use in selecting employees. A thorough systematic study carried on in connection with the preparation of the job specifications is usually productive of a great many suggestions for improvements and savings. Such an intimate detailed study of a job and how it is to be done is known as a "job analysis." The technique of job analysis usually includes all possible ways of finding better operating methods, such as time studies, motion studies, micro-motion studies, fatigue studies, production studies, and the careful analysis of the methods of the most successful and most efficient employees.

**Uses of Job Specifications.**—In addition to the value of detailed statements of specifications of various positions in a retail store as an aid to the employment of help, there are a number of other uses which make the process of writing them well worth while. There is a possibility of discovery of better or more economical operating methods. The preparation of job specifications helps to outline the scope and limits of each job, thereby defining precisely what the work of each job is. This prevents overlapping with other jobs performed by other employees. Thus responsibility is more definitely centered. Each person can be told just what he has to do. The job specification is an important aid and an incentive as well to the employee to train himself. A list of the duties constitutes a list of subjects that must be learned. What knowledge and skill are required are definitely prescribed.

A set of definite job specifications gives the employment manager a clear idea of the types of persons needed when there are openings to be filled. The job specification supplies the basis for the inquiries made by the employment manager in the interview and following examinations. Close following of carefully prepared job specifications makes it possible to place advantageously those who are physically handicapped. Job specifications supply the basic lines upon which company education may be conducted, as well as the basis for eligibility for promotion. Finally, through adoption of job specifications, standards of performance may be set up, records of individual accomplishments maintained, and individual wages fairly paid in accordance with recorded achievements.

Job specifications when made a part of the permanent records of the organization preserve for the company that knowledge which might otherwise be lost whenever a department head or an executive leaves the company. Job specifications certainly do not take the place of permanent employment but they help to solve the problems of breaking in new employees.



**Who Should Prepare Job Specifications?**—Job specifications are now part of the regular system of the most progressive stores in the country. Usually the responsibility for the preparation of job specifications rests with the personnel division. In some cases where the store has a research or planning department the actual labor of preparation of job specifications is carried on by these departments.

While the responsibility for the preparation of job specifications is usually placed in the personnel division, or in some staff department such as research or planning, the essential facts concerning each position must of necessity be obtained directly from the department managers and employees throughout the business. To carry forward a program of development of job specifications it is therefore necessary that there should be the utmost of cooperation.

The usual procedure in setting up job specifications is that the personnel division or other department responsible for initiating the studies of jobs prepare the instructions and blank forms. Setting up proper and accurate job specifications is a difficult and laborious matter. It takes considerable time and effort. Usually the process is carried on in one department at a time. The blanks are filled in by department heads for their respective employees, by the employees themselves, or by collaboration of department heads and employees. It is surprising to note how many department heads learn new things about the details, otherwise unknown, of the work carried on in their own departments when preparing job specifications.

The preliminary draft of the job specification, prepared in the department, is next usually submitted to division heads for review and then presented to a committee representing all interests affected by the job including the employer, the personnel division, the department head, and the employees, for final criticism and revision. The job specification, so prepared, then becomes the standard description until such time as it

may be necessary to change the character of the work of the job or of the job itself.

**Illustrations of Job Specifications.**—There follow five typical job specifications such as are used in retail stores. These are intended merely to serve as suggestions of the possibilities of such records. The actual job specifications for these positions may vary considerably in individual stores.

A. Job Specification

Department (Marking) Position (Ticket Marker)

I. Duties of Position

a. To be assigned to particular marking table.
b. Dust table in the morning and leave it in good order at night.
c. Receive supply of goods to be marked and tickets for marking them from head marker.
d. If price tags or stickers are to be marked by hand follow instructions as to copying information on tags or stickers.
e. Put the required kind of price tag in the appropriate place on each piece of merchandise. Handle merchandise carefully, keeping it in original folds.
f. Check the number of articles to be marked with the number of price tags to make sure all articles are marked.
g. When goods are to be remarked remove old price tags.
h. After marking is completed indicate on each box or container that the goods inside have been properly marked.
i. Report any errors discovered.
j. Observe store rules and regulations in all such matters as working time, lunch hour, relief time, dress, and so on.

II. General Facts Concerning the Job

a. Place: marking room or stockroom.
b. Length of learning period: two weeks.
c. Usual length of services: four to six months followed by promotion, if work is satisfactory to sales department.
d. Special health risks: none.

III. Qualifications Desired

a. Age: 16 or over, adults sometimes employed.
b. Special skill or training: none.
c. Personal qualifications: accurate, careful, deft, and fairly rapid.
d. Physical requirements:
   Height: medium or below
   Normal strength
   Good eyesight
e. Education: 6th grade or better.
f. Rate of pay: $12 per week.



B. Job Specification

Department (Handkerchief) Position (Saleswoman)

I. Duties of Position

a. Stock.
   1. To uncover, dust carefully and arrange stock each morning.
   2. To know fully what merchandise is carried in the department.
   3. To keep stock in good order and attractive appearance.
   4. To prepare department displays under the direction of the department manager and display manager.
   5. To replenish forward stocks from reserves in good time to insure no losses of sales.
   6. To report when stock on any line is falling low so that it may be reordered on time.
   7. To make out want slips on all items called for, not in stock.
   8. To take note of significant comments made by customers about merchandise and report same.
   9. To put away and cover stock at night.
   10. To assist in taking inventories.
   11. To make minor repairs on merchandise.

b. Selling.
   1. To be prompt, courteous, and sympathetic in approaching customers.
   2. To ascertain tactfully what the customer desires and maintain interest in her even if she is just looking.
   3. To present merchandise in an interesting and attractive way.
   4. To give customers accurate information about the merchandise.
   5. To close sale graciously.
   6. To suggest other merchandise in the department or other departments.
   7. To know the trends in fashions, in colors, and styles.
   8. To sell the goods so well that they will not be returned.
   9. To remember the faces and names of customers.
   10. To sense the moods and temperaments of customers and handle them accordingly.
   11. To hold waiting customers while serving one.
   12. To build goodwill of customers for the store.

II. General Facts Concerning the Job

a. Place: handkerchief department on main floor.
b. Length of learning period: two or three weeks.
c. Usual length of services: permanent position, opportunity for increases in earnings depending upon sales ability.
d. Line of promotion: head of stock, assistant buyer, and buyer.
e. Special health risks: none.

III. Qualifications Desired

a. Pleasing personality and pleasant facial expression.
b. Becomingly and appropriately dressed.
c. Dignified bearing.
d. Good voice and correct speech.
e. Tactful and courteous.
f. Active but not necessarily strong.
g. Medium height, sound feet, good eyesight and hearing.

C. Job Specification

Department (Purchasing) — Position (Agent)

I. Duties of Position

a. Prepare intelligible specifications covering the quality of material to be purchased and provide the means for checking deliveries against these specifications.
b. Buy all materials and service required for the store, and be responsible for these until they are delivered to the consuming department.
c. Obtain the best possible cash discount for the prompt payment of vendor's invoices.
d. Compare the various items appearing on the invoice with the purchase order to see that the former is correct.
e. Cooperate with the traffic department so that shipments may be properly routed and delivered when and where required.
f. Study business conditions and markets.
g. Investigate new materials and equipment.
h. Establish relations with supplies and investigate possible new sources of supplies.
i. Keep a record of quotations.
j. Keep an adequate record of purchases in files which are readily accessible. (These records should be comprehensive with respect to nature of materials purchased, quantities bought, from whom purchased, and price paid.)
k. Make a complete audit of invoices with respect to prices, terms, footings, and extensions, and prepare invoices for prompt payment.
l. Maintain a complete file of catalogs of material pertaining to the business with which the purchasing agent is associated. (These files should be revised from time to time to bring them up to date.)
m. Dispose of obsolete material and equipment.
n. Keep the raw material inventory at the lowest possible figure consistent with business and market conditions.
o. Keep in touch with the general activities of the company and tax service departments.
p. Interview salesmen who call personally and put them in touch with the technical men of the organization.
q. Study sales literature received.
r. File claims.
s. Secure such claims as are necessary as the result of the receipt of goods damaged in transit.
t. Inform all department heads of any developments of materials, devices, equipment, prices, etc.
u. Cooperate with all departments by having sufficient materials on hand to meet their schedules and by having material available to take care of any of the changes in schedules.

II. Qualifications Desired

a. Cool, well-balanced business personality.
b. Dignified bearing.
c. Courteous.
d. Systematic.
e. Knowledge of accounting.
f. Knowledge of retail store supplies.
g. Accurate.
h. Honest.
i. Experience (.....).



D. Job Specification

Chain Stores — Position (Chain Store Manager)

I. Duties of Position

a. To put the interests of the company first in all things.
b. Give immediate attention to all inquiries, requests, reports, etc.
    1. Reports should be made out promptly on schedule.
    2. Report goods on day received.
    3. Attend promptly to orders for transfer of goods.
c. Check receipts and note overages, shortages, and breakages.
d. Keep store bright and clean.
e. Keep stocks in good order.
    1. Not more than a dozen of any item on shelves.
    2. Keep in original cases, so far as possible, to preserve and make checking easy.
    3. Prevent accumulation of overstock. Feature slow sellers; one item at a time, until sold out.
    4. Check stock control system frequently by actual physical inventories.
f. Keep expenses down to rock bottom.
    1. Learn how to weigh and wrap merchandise to avoid waste.
g. Safeguard company's money.
h. Push weekly specials.
    1. Keep weekly specials displayed all week.
i. Get selling value out of windows.
j. Keep ahead of last year's figures.
k. Supervise department managers and employees.
    1. Let good help alone as much as possible.
    2. Act as leader not as lord.
    3. Promote whenever possible.
    4. Develop understudies.
l. Be in stock at busiest times.
    1. Help where most needed.
m. Be hardest worker in store.
    1. Be a porter when necessary.
n. Train assistant manager to:
    1. See that customers are waited upon.
    2. Learn how to order, arrange, and display goods.
    3. Keep within stock limits.
    4. Keep good inventories.

E. Job Specification[1]

Chain Store — Position (District Supervisor)

I. Duties of Position

a. Represent the management in his contacts with the individual store manager.

b. Work with managers.
1. Know each manager's character, habits, aims, and expectations.
2. Impress manager with his authority and insist upon immediate obedience.
3. Suggest changes to correct faults of managers: In relation to customers. In relation to employees. In relation to company.
4. Instruct managers on how to handle store and on policy of management.
5. Give special attention and help to new managers.
6. Impress managers with importance of securing high gross profits and of reducing shortages.
7. Teach managers how to make profit.
8. Make manager aware of importance of his job. Show him what success means to himself and to the company.
9. Make manager respect his company by knowing its size and success.
10. Help the manager to take personal pride in the company and its reputation for square dealing.
11. Handle managers so that they are glad to work for company.
12. Never misrepresent anything. Same idea of truthfulness should prevail between manager and customers.
13. Do not call meetings except when worth while program is planned.
14. Instruct managers on merchandise.
15. Keep records of sales of specially promoted articles.

c. Inspect the stores to:
1. See that store and premises are clean. Inspect cellars to insure freedom from fire hazard. Inspect counters, showcases, and shelving to insure good order as well as cleanliness. Inspect refrigerators and other equipment.
2. See that scales are properly adjusted to give accurate weights. Manager should weigh all goods received and sold by weight.
3. See that supplies are economically used.
4. See that manager and clerks are neat and clean.
5. See that shelves are well stocked.
6. See that prices are correct.
7. See that perishable goods are not accepted in inferior condition.
8. See that merchandise displays are kept off floor.
9. See that too much counter space is not used for displays.
10. See that baskets and boxes in front of counters do not impede customers.
11. See that window displays are the best possible.
12. See that all merchandise is correctly priced with clean price tags.
13. See that clean, uniform baskets are being used.

II. Qualifications Desired

a. Adequate background of experience.
b. Habits of close watch over details.
c. Ability to handle men.
d. Attitude of owner in promoting business of company.

[1] Adapted from *Chain Store Age*, July, 1927.



**Selection of Employees.**—When openings occur and new employees are to be selected, the employment manager may be greatly assisted, as already indicated, if there are job specifications. Lacking such definite procedure, the employment manager must work on such information as he possesses or may gain from the department head in which the new employee is desired, as to the detailed requirements which the new employee must satisfy.

The fitness of applicants for prospective positions is determined by the employment manager by the records of their past accomplishments and by such facts concerning their personality as may be secured. The historical records desired usually consist of:

1. Personal and family history
2. Education
3. Health
4. Experience—positions held, how long, amounts earned, etc.

Characteristics of personality given consideration include:

1. Appearance, dress, neatness, pleasing personality, etc.
2. Ability to sell
3. Mental attitude toward work
4. Mental alertness
5. General knowledge and intelligence
6. Sociability
7. Physical reactions and activity

On the basis of information such as the foregoing, the employment manager must decide whether the applicant will fit the opening in the store and make his estimate as to whether the employment of the applicant will turn out profitably and successfully.

**Methods of Securing Information About Applicants.**—The common methods of securing information as to history and personality concerning applicants are:

1. Personal interviews
2. Use of application blanks
3. References
4. Special tests

**The Interview.**—The interview is to most employment departments the chief means of getting information about the abilities of the applicant. In many stores there is a rule that no one may be employed without an interview. Many people are employed on nothing further than the information gained in the interview.

When not supplemented by the other sources of information, even under the best conditions, a large element of chance enters into decisions based on the interview. In some cases the interview may be unfair to the applicant, in other cases, to the employment manager and the company. More than one interview, where possible, is helpful, but the calls for help are usually so urgent in the average store and the number of people who must be seen so great, that the employment manager's judgment as to the applicant's fitness must, in most cases, be formed quickly.

The interview is to the employment manager what the diagnosis is to the physician. Like the physician, the employment manager needs a well-developed order of procedure to bring out as much information as possible in the time available. The interviewing room should be quiet, comfortable, and private. The employment manager's manner should be such as to set the applicant at ease and to give him or her a fair chance to present such facts as may be helpful. The questions asked should be direct, simple, easily understood, and time given for unhurried replies. The interviewer may be helped by a dignified manner and pleasant appearance, but anything forbidding will handicap the interview. Patience, and above all, courtesy are essential.

The interview should be useful not only as a means for getting information from the applicant but also as a means for



sizing up the applicant. His manner of talking, how he is dressed, how he walks, his reactions to questions, his attention to details, what is of interest to him and what is not, are fully as important points to the interviewer as any information presented.

**The Application Blank.**—The application blank serves as a means of supplementing the interview by securing detailed information easily forgotten in the interview but which may be of great importance as a matter of record. The application blank should summarize all the information that the employment manager can use and which can be obtained from the applicant. Each question should have a purpose. Unusable information should not be required. All questions should be worded as briefly and as definitely as possible with the view of getting simple, direct, as well as brief answers from the applicant.

The information called for in retail store application blanks may be divided into nine classes as follows:

1. Personal history
2. Education
3. Living conditions
4. Health
5. Habits and characteristics
6. References
7. Position desired
8. Pledges and agreements
9. Office records

The personal history usually includes the full name, age, whether married or single, address, telephone, nationality and nationality of father and mother, father's business, birth place, citizenship, and husband's business, if applicant is a married woman.

The questions about education usually inquire as to what

grade of school the applicant was in last. In some instances there are questions about special forms of education such as languages, home economics, mathematics, and so on.

Under living conditions the application blank usually inquires as to whether the applicant must contribute to the support of others, whether living with parents or relatives, whether the applicant boards or keeps house.

Questions asked under the other headings may be best understood by reference to the accompanying form. Many application forms include questions as to the willingness of the applicant to sign such pledges as agreeing to the termination of employment without notice at any time, to join the store's mutual benefit association, and to observe rules and regulations of the house as to dress and other requirements.

Herewith is a typical application blank such as commonly used in a large retail organization, the United Cigar Stores Co. (Figure 49).

**References.**—The interview and application should be followed up by a thorough inquiry among those referred to in the application blank. Teachers should be asked for information about their former students, and employers concerning older people who have been employed elsewhere.

Upon the basis of actual knowledge gained by observation in the interview, in the application blank, and by inquiry, a fair judgment can be approximated, and in this way the right employee for the right place can be secured. This is the first step toward reducing labor turnover and labor costs in the store.

**Physical Examinations.**—There are several varieties of tests which, when applied to applicants for retail store positions, will help to predict the probable success of the applicants at specific jobs if appointed. First, and perhaps most important of all, is the physical examination.



## APPLICATION for EMPLOYMENT SHEETS 1 —2 INC.

*(PREVIOUS SALES EXPERIENCE NOT NECESSARY)*

**PRELIMINARY** { REQUIREMENTS OF APPLICANTS / FOLLOW THESE INSTRUCTIONS CAREFULLY.

Seeking employment - **APPLICANT** should hand the "prospective employer" a list, saying:

"I want employment - **This is my record for the past 10 years.** - I will work hard to earn advancement"

Employees holding **"permanent positions of trust"** must be bonded. Our Company pays for this bond.

To get a bond you must furnish **ABSOLUTE FACTS** from **the present time** and straight back **FOR THE PAST 10 YEARS.**

**BE SURE TO LIST AND ACCOUNT FOR YOUR ENTIRE TIME** either "in" or "out" of employment to include sickness or otherwise even if but a few weeks or days are involved. Do not try to **"cover up"** any **time** or **places** by claiming to have been working for relatives or friends. **Furnish the actual facts - in detail.**

**(Secure this information from your personal records or from the family at home. If necessary consult previous employers.)**

**IMMEDIATE—PERSONAL—AND THOROUGH INVESTIGATION OF YOUR PREVIOUS CAREER AND ALL INFORMATION YOU FURNISH WILL BE MADE BOTH BY THIS COMPANY AND THE BONDING COMPANY. THEREFORE, UNLESS YOU INCLUDE ALL EMPLOYMENTS AND CAN SHOW THAT YOU LEFT EACH PLACE IN GOOD STANDING AND THAT YOUR BOND IS ACCEPTED ON YOUR PAST RECORD, WE CANNOT CONSIDER YOUR APPLICATION.** (All written references will be checked up thoroughly.)

**PLEASE UNDERSTAND** that your list of this information must be **correct** and **complete** as here outlined and further provided for on the back of this paper—**Namely:-**

**(DATES)**—*TIME EMPLOYED.* Position—Last Salary—Name of Employer and Present Address—Kind of Business—Superior Officers—Name and Present address—Reason for Leaving.

" *TIME NOT EMPLOYED.* **If you were "out of work" don't hesitate to say so.** State frankly and fully where and with whom you were living and reasons why you were unemployed.

" *TIME IN GOVERNMENT SERVICE.* State branch of service—bring your discharge papers with you.

" *TIME IN BUSINESS FOR YOURSELF.* Name of your Company—Address—Kind of business—also names and addresses of persons or concerns from whom you bought goods. If in debt in any way—List names, addresses, amounts and how incurred—on separate paper and **ATTACH.**

" *GIVE NUMBER OF YOUR BADGE.* If formerly employed on Government work—Railroads—Boats—Freight yards or other places where badges are used.

" *TIME IN SCHOOL.* Name or Number of School—Address—Name of last principal.

*MAKE CERTAIN TO GET YOUR BOND.* If you were ever connected with any transaction that questioned your character or which might cause any one to hesitate in giving you good references—**attach a statement explaining the matter.** If you fail to do these things you cannot expect employment with our Company.

**WORKING HOURS — HONESTY — LOYALTY — ADVANCEMENT**

**THE HOURS ARE IRREGULAR, BUT THE WORK IS NOT HARD OR EXACTING FOR MEN IN GOOD HEALTH.** In towns where stores are open 7 days a week you may have to work on Sunday, but we adhere strictly to State Labor Laws in all cases. We also operate in different "shifts" by day and week, which are changed from time to time at the option of the company.

**YOU CAN MAKE THIS A LIFE-TIME WORTH-WHILE-BUSINESS CONNECTION, AND ADVANCE YOURSELF GRADUALLY, IN BOTH SALARY AND POSITION.** IN FACT, **WITH CLEAN LIVING, THERE IS NO LIMIT TO YOUR SUCCESS WITH OUR COMPANY, IF YOU ARE WILLING TO WORK HARD ENOUGH AND ARE INTERESTED IN YOUR OWN PERSONAL FUTURE. PRACTICALLY EVERY MAN HOLDING AN OFFICIAL POSITION WITH US TODAY, STARTED "GREEN" AT THE BOTTOM.**

Subject to certain rules, regulations and conditions, our Company has a **Pension, Insurance, Vacation and Stock Plan.** Also limited **FREE Medical Service** is provided for employees, where practical, in certain large cities.

Of course, **HONESTY** and **LOYALTY** is demanded from the very beginning and all the way if you hope for any success with our Company.

**NOTE: —BEFORE STARTING TO WORK,** we will require you to furnish a small photo of yourself, size 1½ inches square, to be retained by the Company.

(OVER)

Figure 49. Illustration of an Application Blank Used by the United Cigar Stores Co. (page 1)
Special note should be taken of the detailed information secured.

APPLICANT READ | THIS PAPER OVER VERY CAREFULLY AT YOUR HOME. IF AFTER SERIOUS CONSIDERATION YOU ARE WILLING AND CAN COMPLY WITH THESE REQUIREMENTS YOU MAY CALL ANY WEEK DAY MORNING AND PRESENT A STATEMENT OF YOUR PAST RECORD AS BELOW.

SHEET No. 1

Date_____ 192__

I_____ residing at_____
(PRINT) First Name in Full Middle Initial Last Name

(In care of_____) herewith apply for position with the
(If you room or Board out, show name of person with whom you live.)

**United Cigar Stores Company of America**

The Following Are **Absolute facts for last 10 years** regarding my past life

Born at_____ Nationality (Descent)_____ Religion_____ Age_____ Years

Married or Single_____ Wife living_____ Children_____ Other Dependents_____

Recommended by_____ Related to any one with Company and whom_____

Debts (give full details)_____ State if employed by this Company before_____

Did you ever use any other name_____ Date of Birth_____

**NOTE:** **BEGINNING**—List your **LAST** position **FIRST** and so on backwards for the past **10 Years**
**(STATE THE WHOLE FACTS PLAINLY—WRITE STRAIGHT ACROSS THE SHEET IF NECESSARY)**

| TIME OF SERVICE FROM (Month, Year) | TIME OF SERVICE TO (Month, Year) | EMPLOYED AS | LAST SALARY | NAME OF EMPLOYER OR CORPORATION AND PRESENT ADDRESS | KIND OF BUSINESS | SUPERIOR OFFICERS NAME AND PRESENT ADDRESS | REASON FOR LEAVING |
|---|---|---|---|---|---|---|---|
| PRESENT TIME AND BACK | | | | (Name) (Address) | | (Name) (Address) | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |
| 19__ | 19__ | | | | | | |

If not enough space here complete record on separate sheet and ATTACH.

**ISSUED** to **Applicant** by_____ Floor.

Date_____ 192__ Address_____

**DISTRICT SALES MANAGER**—If Applicant appears acceptable, **tear this sheet off from side.** When returned **completed**, after **you have made satisfactory investigation**, if finally engaged, then **attach** this Preliminary Sheet No. 1 to Sheet No. 2 and forward with **other completed Employment papers to—GENERAL OFFICE.**

Figure 49. (page 2)



## APPLICATION for EMPLOYMENT SHEETS 1–2 INC.

(Information to be filled in by **DISTRICT SALES MANAGER** or **EMPLOYMENT OFFICER**)

Date_____ 192__

Issued **PRELIMINARY APPLICATION** Sheet No. 1—To:

(Applicant's) Name John Doe

Address 1210 River

In care of home Phone River 1234

Recommended by Mrs John Doe
2

State how _____ (By 'phone—in person or **attach** letter.)

For **POSITION** as clerk **DEPARTMENT**

**STORE**_____ **STARTING** Salary $ 5.00 per **Week.**

**ZONE**_____ For 6 weeks
District Sales Manager

**(D. S. M.—NOTE** below—**TIME—DAY—DATE,** etc., when **Applicant** agrees to return with or mail completed **Preliminary Sheet** No. 1, to you.)

YOUR SALARY IS INSUFFICIENT

— Why argue ?

**REMARKS:** If desired **D. S. M.** may here list NAMES, ADDRESSES—DATES—POSITIONS—SALARY—SUPTS., etc. of **Applicants last previous 2 years Employments** for **immediate** Preliminary Investigation.

**THE DISTRICT SALES MANAGER OR EMPLOYMENT OFFICER**—will hold this **Sheet** No. 2 **at his desk** with the above convenient information. **When Applicant returns, and if engaged, after completing opposite side,** then **pin** this sheet to **Sheet** No. 1, and forward both sheets with other completed Employment papers to—**GENERAL OFFICE.**

(OVER)

REMARKS: [redacted]

**Last Store**_____ **Position**_____ **Date**_____ **192**__

**Zone**_____ **D. S. M.**_____ **Address**_____

**NOTE**—The **"PHOTO"** (over leaf) may be kept temporarily at **LOCAL HDQTS.** of **D. S. M.** or by **ZONE MGR.**—To be forwarded to **GENERAL OFFICE** with **LAST Form 25,** if employee leaves our services.

(OVER)

Figure 49. (page 3)

To be Filled in by APPLICANT for—Medical Department SHEET No. 2

(1) Were you employed here before, or did you ever make previous application? no

(2) From what diseases have you suffered during your life-time? No

(3) Is your eyesight good? no State if you wear glasses no

(4) Have you a rupture or any other deformities, or have you had any bones broken? no

(5) Have you ever been operated upon; if so, for what? no

(6) Is there any tuberculosis (consumption) in your family? no

(7) Has any application made by you for a position ever been rejected on account of physical condition? no

(8) Have you ever lost or left a position on account of your health? no

(9) Has any application made by you for insurance ever been rejected? no

(10) Have you been successfully vaccinated against smallpox, and when? no

(11) Have you now or have you ever had any trouble with your feet? no

(12) Is there any reason why you should not work indoors for this Company? no

(Where Medical Services are Provided)—PASSED BY [illegible]

**SALESMAN'S RECEIPT FOR MANUAL**—I have received from the United Cigar Stores Co. of America, one copy of Salesman's Manual **(instructions)** which I agree to **READ, keep in good condition and return upon demand to the District Sales Manager, Employment Department or any officer of the Company.**

**EMPLOYMENT AGREEMENT**—I hereby accept employment with the United Cigar Stores Company of America and/or such of its associates and subsidiary Companies to which I may from time to time be assigned and agree to perform such duties as may from time to time be assigned to me, and do also agree that my compensation is to be such as may be determined from time to time by the Company, or any of its officers or the Employment Department.

My Employment is by the day only and may be terminated at any time without cause or notice, and is subject to all rules and regulations adopted by the company from time to time which I agree to be bound by and comply with.

I have furnished with all free will in my own handwriting, the foregoing statements which to the best of my knowledge are correct, complete and all of these conditions are satisfactory to me.

Date ..... 192.1, Signature of Applicant John Lee

In presence of ..... Special Approval .....

**DISTRICT SALES MANAGER:**—When **Applicant** returns and is engaged, **attach Preliminary Sheet** No. 1 to this **Sheet** No. 2. Then forward both sheets promptly with—(1) **Bond Application—"General Warning" Notice—Form 33—Photograph** (see note)—and satisfactory references from the **Applicant's** last employers—to **GENERAL OFFICE** in a separate envelope marked **EMPLOYMENT DEPARTMENT.**

IF TOO LARGE TRIM TO THIS SIZE SPACE

THEN— PASTE PHOTO CENTER HERE

NATIONALITY Swedish

DESCENT Swedish

COLOR OF HAIR Brown

(To be filled in by District Manager)

Print Full Name .....

Home Address .....

Age 51 yrs. Weight 250 lbs. Height 6 ft. 3 in.

Birth Marks none Time with Co. 1 yrs.

Position Clerk Store 101

Zone 1 Dist. Sales Mgr. JKL

Above is information at this Date ..... 192.

(OVER)

Figure 49. (page 4)



One of the chief causes of reduced efficiency in retail stores is the physical unfitness of many of their employees. Striking defects such as partial or complete blindness, deafness, illness, and deformity obviously unfit people for selling. These defects occur in all possible degrees and, in so far as they exist at all, hinder the individual's progress and materially reduce the efficiency of the store.

Color-blindness may be so slight as to pass unnoticed by the individual and his associates, but may still be the cause of the inability of a retail salesman to serve customers with good taste. A slight deafness may be the unconscious cause of inattention and apparent discourtesy. Weak feet, broken arches, corns, and badly fitting shoes are more than likely causes of irritableness, lack of patience, unwillingness, and apparent blindness to opportunity. There is a very large percentage of retail salespeople, as every physical test has shown, who suffer from defective feet. Bad digestion has probably caused more people to do the devil's bidding than all other causes put together. Uncorrected visual defects, teeth needing attention, and wrong diet, are almost certain to make employees perverse, inefficient and disagreeable in their work.

Hardly ever does a person in perfect physical condition fail in work. When a person fails we blame his will and his attitude toward the work. But back of the will and the desire lies the physical condition that determines, in most cases, the trend of both.

To get the right kind of employees there is needed a thorough physical examination at the time of employment, and, if possible, periodically thereafter. Such an examination will result in preventing the employment of the physically unfit, those who would labor under handicaps in the store, and those with contagious disorders that would endanger other employees. At the same time such examinations should be of value to the applicants themselves. Their attention may be called to de-

fects of which they are not aware and thus they may be enabled to take steps to eradicate such weaknesses.

That there is need for physical examinations is evidenced by the fact that more than half of the people between the ages of 18 to 45 are so defective as to be in actual need of medical or surgical treatment. More than a third of the young men between 21 and 31 years of age drafted for army service during the World War were found unfit for the training camps and all men were admitted who suffered from ailments that might be successfully treated in camps.

Examinations made by industrial concerns, insurance companies, and by the Life Extension Institute show that physical defects are fully as frequent in women as in men. Therefore, physical examinations of the group of people employed by a retail store are certain to show a high rate of impairment among its applicants as well as its employees. The results of physical examinations are often startling eye-openers.

Physical examinations for retail store applicants and employees may be by either a store physician, if there is one, or by contract arrangement with some outside physician. The Life Extension Institute, whose headquarters is in New York, performs this sort of work on a large scale through its home office and through branches and representatives located in many of the principal cities of the country. This organization conducts the periodical physical examinations provided by certain life insurance companies for their policyholders and for a large number of important industrial concerns. In any case, whoever performs this service, it should, if possible, be carried on by reliable, well-trained physicians.

**Objections and Expenses.**—There usually is some objection at the start from employees and from applicants for positions to physical examinations. This grows out of misunderstanding and may be entirely overcome by patient explanation and tactful handling.



The expense of physical examinations more than pays for itself in the long run in improvements in personnel health and service. "Physical examinations pay," is the verdict of practically all concerns that have tried them out systematically.

**Special Tests to Determine Aptitudes for Retail Store Work.**—Much experimentation has been carried on since the period of the World War in adapting various technical, psychological, psychiatric, and intelligence tests to aid in selecting employees for retail store work. This subject has been widely discussed in a variety of publications and books, references to which may be found at the end of the chapter.

**Psychological Tests.**—Psychological tests, intended to determine the ability of applicants in such matters as reaction time, memory, reasoning, analytical ability, ability to concentrate attention, vividness and bent of imagination, dominant motives, personal likes and dislikes, and special aptitudes, have made but little headway in actual retail store practice. Tests for hearing, sight, and color-blindness are, of course, successfully used, but are generally made as a part of the physical examination rather than as a part of special psychological tests.

Certain tests for mental alertness such as quickness and accuracy of identification of objects, ability to follow instructions, time to learn a new operation, and ingenuity in meeting unusual situations, have gained many advocates in the industrial fields and have been tried out in retail stores but, so far as is known, without marked results. There has generally been a negative effect, namely, that wherever a high rate of mental alertness has been discovered it has usually been associated with a relatively high rate of unrest in retail store work. Retail store employees, particularly those in selling positions, with very high rates of mental alertness, soon grow dissatisfied with their work. Therefore, medium to low grades of mental alertness are considered better for routine positions in retail store work than the higher ratings.

**Psychiatric Tests.**—Psychiatry has been introduced in a limited way in retail personnel work as a means of keeping out the mentally handicapped applicant and laying off the mentally abnormal and mentally unsound employee. It has also been employed as a means of analysis of failures of employees in retail store work. Frequently, such failures are found to be direct results of unhealthy preoccupations, inferiority feelings, anxiety stress, fears and hatreds, pessimistic moods, prejudices, and irrational attitudes. Psychiatry methods are used to determine such causes of failure and in many instances to help the employee make better adjustments with very great improvements in productiveness. Psychiatric work is probably in its infancy in its application to retail store personnel work. Progress in this field may well bear watching.

**General Intelligence Tests.**—Considerable experimenting has been carried on by many retail personnel managers on general intelligence tests as a basis for evaluating applicants for retail positions. Great progress has been made in the educational world by the use of the so-called Binet-Simon tests, or modernized revisions of the Binet-Simon tests, to determine the degree of mental maturity of school children by a series of graded intelligence tests. It has been hoped that such tests could be found applicable in business. Some years ago, Thomas A. Edison gave considerable impetus to the movement to apply general intelligence tests by announcing their use and results in his organization. None of these have, so far as is known, resulted in definite progress in the selection of retail store employees.

**Educational Tests.**—Tests for special knowledge in specific lines are in much more general use and are very useful in serving specific purposes. Under this heading one may find stores requiring all applicants for routine positions, such as selling and office work, to take examinations in simple arithmetic, spelling, writing, local geography, and so on. The time



is probably not distant when similar tests will be required on knowledge of home economics, consumer demand, fashion, and economics of consumption.

**Trade Tests.**—In the industrial field, successful use has been made of so-called trade tests to determine the knowledge of applicants for positions in their respective industrial trades. Similar types of tests are applicable in the retail field for many positions, such as for stenographers, comptometer and adding machine operators, inspectors and wrappers, chauffeurs, and so on. The trade test idea may also be applied in the employment of experienced people for selling and other merchandising positions. A set of technical examination questions dealing specifically with a merchandise line intended to bring out an applicant's knowledge of that line can, of course, be very helpful in checking the applicant's statements as to his experience and ability in the given field.

A list of questions such as might be asked of an experienced glove salesperson is presented in Figure 50 (pages 328-329) as an illustration of this type of test in retail store use. The questions are in most cases accompanied by suitable, satisfactory answers. This list is of the type used by employment managers in determining the trade knowledge of experienced applicants.

**Pseudo-Scientific Tests.**—From time to time employment managers and executives are carried away by their interest in so-called methods of character analysis. If there were any sure, swift short-cut to reading character, its discovery would be a wonderful aid to employment as well as to all other walks of life, but in spite of thousands of years of study and theorizing, no such method has yet been found. Hope springs eternal, however, in the breasts of many, so there has been wave upon wave of belief in various "systems" and schemes such as astrology, palmistry, clairvoyance, telepathy, phrenology, graphology, and physiognomy.

TEST QUESTIONS ON SELLING GLOVES

1. What kind of gloves have you sold, leather, fabric, silk or woolen?
2. What makes of gloves were carried where you last worked? Featured? Imported?
3. What style, type, and priced glove proved most popular?
4. Name the various kinds of skins from which gloves are made.
   Real kid, lamb, cape, suede, mocha, and chamois.
5. What is the difference between mocha and suede?
   Suede has an unglazed finish; the surface has been removed, so that the skin will be soft. The skin on the flesh side, which is usually lamb or kid, is brushed up to give the soft velvety finish.
   Mocha has also a soft and unglazed finish, but is made of leather of sheep origin and is heavier than suede. Mocha is only dyed successfully by dipping, because of its porous texture. This makes both sides the same color.
6. How do you distinguish a real kid glove from a lambskin?
   1. The kid glove is finer.
   2. The kid glove shows fine wrinkles in the skin.
   3. The kid has less fuzz on the back of the glove than the lamb.
   4. The lambskin is more porous and it is easier to see the grain.
7. How do the wearing qualities of glacé finish compare with suede finish?
   The glacé finish is scraped to produce suede finish and this necessarily affects the wearing quality of the glove.
8. What is a capeskin glove?
   Made from heavier skin. A mannish style glove, usually made with P. K. or outseam. Capeskin derived its name because the genuine capeskin comes from Cape Colony, Africa.
9. Name the fabrics from which gloves are made.
   Milanese, tricot, lisle, and chamoisette.
10. What are the various styles of sewing?
    Full piqué, half piqué, overseam, prix seam, and inseam. Piqué is usually written as P. K.
11. Describe the P. K. seam, the overseam, and the prix seam.
    P. K. seam is made by lapping one piece over another and stitching through both.
    An overseam, used mostly on soft, fine gloves, is made by laying the edges together and sewing them over and over.
    A prix seam is made by laying the edges together and stitching through both on the outside of the glove.
12. What seams are best: (a) For wear? (b) For appearance? (c) For heavy gloves?
    (a) Piqué. (b) Overseam. (c) Prix seam or P. X. M.
13. Name the styles of embroidery.
    Paris point, spear back, hand embroidery, and machine embroidery.
14. What is a cadet glove?
    A cadet glove is a mannish glove that runs short in the fingers.
15. In what different lengths are gloves made?
    1 clasp, 2 clasp, 8 button, 12 button, 16 button, 20 button, 24 button, gauntlet and slip-on.
16. What kind of glove would you recommend for: street wear, evening wear, etc.?
    Answer depends upon fashions at the time.
17. What gloves should be recommended highest for everyday wear?
    Mocha or capeskin.

Figure 50. Trade-Test Questions Used in Checking Ability of Applicants for Position as Glove Salesperson



18. What kind of gloves should be recommended to a customer who asks for washable gloves?
    Chamois, some mochas and capeskins, fabric and silk gloves are washable.
19. What is the difference between a slip-on and a mousquetaire?
    Slip-on is a glove which slips on over the hand with no opening in the center.
    Mousquetaire is a long glove with an opening in the center, which clasps or buttons. The length of the mousquetaire glove is from 8 to 24 buttons.
20. What is the first step in glove selling?
    Measuring the hand.
21. How do you determine the correct size the customer needs?
    A glove-fitter should be able to determine the size by looking at the hand. Before trying on, measure the hand across the knuckles with the glove, and compare the length of the middle finger with the corresponding finger of the glove. If the customer's fingers are stout, see that the fourchettes run full. If the fingers are slender, fit customer with a glove which has narrow fourchettes. If the entire hand is fleshy, try to induce the customer to buy a good quality because they are more elastic.
22. How would you fit a glove?
    Open the fingers with the glove stretcher, but do not stretch unless the fingers are stout. Put powder into the glove to absorb the moisture of the hand. Have customer place elbow on the counter. Put the gloves on the fingers, working them down gently, and being careful to keep the seams straight with the lines of the fingers. Put in the thumb and then work the gloves down well over the hand with the fitter's finger inside the palm of the glove. Clasp at wrist.
23. How do you fit a 16-button glove?
    Turn back the arm of the glove and fit the hand.
24. How do you fit the finger of a glove?
    Working with the top and bottom of the finger (never rubbing the sides of the finger because this pulls the seams).
25. What do you consider a well-fitted glove?
    A well-fitted glove fits with ease, but snug enough to give a trim appearance. The length of the finger should correspond with the length of the hand. The glove should be large enough to be fastened at the wrist.
26. How would you remove a glove?
    Unclasp the glove and draw it over the hand, turning it inside out. After having removed a glove which the customer does not decide to take, straighten, and put back into shape while it is still warm from the heat of the hand, and place in the tissue folder.
27. What size in a silk or fabric glove would you sell a woman who wears a 6¼ kid glove?
    (Fabric gloves are not made in quarter sizes.) For silk or fabric, sell 6 for a short, soft hand—6½ for a bony and long hand.
28. Should black gloves be sold same size as white?
    In black, customer should be given a larger size than white except where the glove is soft and flexible.
29. What part of a long glove should be stretched if a customer wishes to see the pliability and color?
    The under side of the glove near the opening at the wrist. This makes it possible to pull the glove back into shape without stretching it permanently.
30. What is the first essential for keeping gloves in shape?
    To pull back into shape while the glove is still warm and soft from the hand.
31. How do you care for gloves after fitting them?
    Pull off—blow in them—then stretch into shape. Place in cabinet with tissue between each glove and back seam down.

The intelligent reader will at once cast out of mind most of these as wholly futile, but may make reservations in favor of some one or more of the group. Many business men now believe in the last three—phrenology, graphology, and physiognomy.

**Phrenology.**—Phrenology theories were exploded long ago in the acid test of accurate measurement but have recently been revived in well-advertised methods of "character analysis" and apparently the errors of the past will have to be tried out again in the fires of costly experience.

**Graphology.**—Graphology, reading character in handwriting, is without scientific value but does apparently offer something indicative of character in an indirect manner. Thought tends to be expressed. Habits of thought are formed. Expression likewise becomes habit. So neatness in thinking is likely to be shown in neat writing. Forceful thinking might be shown in strong, jagged, forceful writing. But it is all very indefinite. The most valuable point that the retail store employment manager can gain from observing the writing of applicants is whether the penmanship is legible or not. That constitutes sufficient reason for getting a sample of the applicant's handwriting.

**Physiognomy.**—Physiognomy, like graphology, may tell something of the inner man because thoughts tend to show in the expression of the features. Signs of nervousness are obvious. The rate of thinking, whether rapid or slow, can be seen. The person who is trying to keep from telling something may have shifty eyes, but in every case it is the expression that the interviewer sees and interprets and not the length of the nose, the slant of the forehead, the convexity or concavity of face, the blondness or brunetteness of the applicant. The only character reading of which we have any assuredness is character reading from expression—what the applicant tells by



word of mouth, by actions, by blushes, frowns, inclination of the head, twitching of the smaller muscles, and so on. This is real and highly important. To be a successful reader of men, one must be expert in reading and interpreting expression. The most skilful character readers are the most skilled readers of expression. They may think that it is physiognomy, phrenology, telepathy, or what not, but, subconsciously if not consciously, it is swift, sure noting of the outward signs of the applicant's thoughts.

**Special Requirements for Positions in Retail Stores.**—The size, appearance, and figure of applicants for sales positions must be given careful consideration. The more obvious points in this connection may be handled by the employment manager such as:

A girl with a sallow, unhealthy complexion would be entirely out of place in the toilet goods department.

Neckwear and jewelry saleswomen should have good-looking necks as well as heads and faces. Such goods are often sold by demonstrating their appearance on the salesperson.

A bald man selling hair restorers would be a joke. NO KIDDING!

Even different types of salespeople are required within the same department. For example, in a jewelry department, the salespeople selling the cheaper lines of jewelry may well be the flapper type who like to use and work with these goods. Salespeople in the sections selling higher-priced jewelry must be more mature, have a better presence, and have a sense of fitness, style, and an eye for color and harmony.

In the selling of clocks and watches it has generally been found that salesmen are more successful than saleswomen. It is difficult to explain some of these differences, but in the clock and watch department the preference given to men is probably due to their natural mechanical aptitudes and abilities to explain these details to customers.

Salespeople who look very young will have difficulty in

closing sales in departments where the confidence of customers is needed, such as in clothing, dry goods, floor coverings, furniture, musical instruments, and other high-priced goods. Maturity, femininеness, and a natural liking for children are requisites for the infants' and children's departments.

Short girls do not look well behind tall show-cases or counters, nor do they stand the work well if they have to reach up frequently for goods on high shelves.

Good-sized, good-figured saleswomen are needed in the ready-to-wear departments. Tallness is an asset here.

Tall salespeople are not ideally fitted to become good shoe salesmen. A tall person is worn out bending up and down fitting shoes.

A slow-moving girl is entirely out of place in an active notions, handkerchief, or low-priced jewelry department. Slender, agile, active salespeople are needed in such departments.

It seems that nobody loves a fat man or a fat woman in retail selling positions. There isn't room enough for them back of the counters. They do not move quickly enough. Large saleswomen, stylish stouts, may be assigned to the clothing departments catering to large women customers. Slender people are ~~also~~ desired as elevator operators.

The nicely dressed, pretty young lady is entirely out of place in the home furnishings departments. These lines of merchandise require the businesslike attitude ~~of~~ and presence of a good, practical housekeeper and cook.

Frail-looking people should not be placed in positions where they have to do a great deal of heavy lifting. The effect is not only hard on the employees but also on customers.

Glove saleswomen need to be slender, animated, and to have flexible fingers and healthy, well-kept hands.

In stores having candy, soda fountain, grocery, and other food departments, in which saleswomen wear white uniforms, brunettes generally present a better appearance than blonds.



Dark hair and eyes generally appear to better advantage in white than very light complexions.

Married women are in many cases less dependable, more independent, and less regular in attendance than single workers. Often married women seek retail work for temporary periods only. No generalization, however, is safe. The number of married women steadily employed in retail store work is constantly increasing. They make excellent part-time workers, filling in on positions from 10 A.M. to 4 P.M.

Many retailer employment departments draw the line on divorcees on the ground that they may be difficult people to get along with. Here, too, generalization is both unwise and unfair. Whether married women and divorcees should be employed should depend solely upon their character, qualities, and experience. The interview should disclose the background in each case and help to determine whether the applicant is suitable or not.

**Other Matters Which Are Sometimes Given Important Consideration by Employment Managers.**—The overdressed applicant, who is decorated with a great deal of jewelry and cosmetics, is likely to be turned down.

The applicant who can do almost everything is usually the one who can do nothing in the way that it ought to be done.

The applicant who has had several positions during the last three years probably lacks sticking qualities. Such an applicant is hard to satisfy and expects increases in salary too quickly.

An applicant who lives at a distance, requiring considerable time and commutation expense and who runs a strong chance of missing connections at transfer points, usually is not favored.

Applicants who are married and have heavy financial responsibilities cannot be considered for retail positions that pay wages too low to give the proper support. An applicant who

pays $25 a month for rent cannot maintain living expenses at a salary of $16 or $17 per week.

Age is an important consideration in retail store work. From 20 to 35 years of age is considered the best for selling help. Opportunities for advancement grow progressively more difficult for salespeople past 35 years of age.

**Sources of Applicants for Positions.**—Retail stores generally have more applicants for positions than openings. There is a tendency among some stores to depend for help almost entirely upon applicants who come to the store on their own account looking for positions. There is a danger, however, in this policy since this brings to the store only those who are out of positions and the majority of these are likely to be of the less desirable types. Furthermore, the applicants do not by any means always fit the jobs that are open. Consequently, a retail personnel division needs to develop other sources for securing applicants for openings as they occur. Some of the best of these sources may be enumerated.

1. Persons recommended by present employees. As a rule employees take a great deal of interest, if given the chance, in finding good employees for the concern. Some stores pay a bonus of a dollar or in some cases five dollars for every new employee thus obtained. At the same time, this method of getting new help is not without disadvantages. If a large number of employees are taken into the concern in this way, cliques centering around those who made the recommendations easily form, and these are in some cases difficult to manage. Cases have been known where groups left the store when the person who recommended them was discharged.

2. Advertising in local papers. This is usually an effective way of getting help.

3. Advertising placed so that young people in the villages and country may see it. Such advertising usually brings good results and a desirable class of employees. Large city stores



can frequently get many desirable employees by going to small towns and to the country.

4. Organizations such as the Y. M. C. A., lodges, churches, and young peoples' organizations. These may be very helpful sources of getting desirable applicants.

5. Students about to quit public, private, and business schools who desire to go into store work. Information concerning such persons may be obtained through the help of the teachers and principals of the schools.

6. Salespeople who have left the store but who may be willing to come back.

7. Saleswomen who have left the store to get married but who for one reason or another may be willing to come back for work, particularly if offered the opportunity to work at convenient hours. A few concerns are able to keep highly desirable saleswomen on their staffs for the busy hours of each day in this way.

8. Employment agencies, particularly the public employment agencies lately established. Such agencies are certain to become important sources.

9. Advertising in trade papers for high-grade employees. The fact that a retail store man or woman reads trade papers sufficiently to note the "want ads" is a recommendation of some value.

**Goodwill as an Employment Factor.**—A store is likely to experience ease or difficulty in getting new employees in accordance with its goodwill in the community. Applicants will sometimes take positions in certain retail stores even at lower rates than those which may be obtained elsewhere, simply because the employees already there are so well-satisfied. There are a few stores which at all times are able to command the services of the best classes of young people in their towns. The store's goodwill is in such cases equivalent to cash in hand.

As this is so true, every store should aim at developing its

goodwill, not only to increase its patronage, but also to help get the right sort of employees.

**Objections to Retail Store Work.**—During the past few years there has arisen the feeling among many employment managers that the classes of people seeking employment in retail store work are becoming poorer rather than better in ability and other qualities. Perhaps retail store standards are rising. Certainly the proportions of applicants rejected are rising. As a check against the possibility that the better-class employees avoid retail stores and seek employment in offices and elsewhere, it may be of interest to consider why retail store work is thought less desirable.

An analysis of the objections to retail store work prepared by stores interested in this problem, has resulted in the following list. In each case the points presented are given as mentioned by employees of retail stores. No attempt has been made to weigh them or indicate the extent to which these views are held. That these attitudes toward retail store work exist at all is an important consideration deserving the attention of retail store managers and owners as well as of personnel managers.

1. Most of the work in a retail store requires little special ability or skill. It therefore attracts people of mediocre ability and offers little that is stimulating from personal contact with other employees.

2. The hours in retail stores are frequently longer than in other types of work available for persons who might otherwise be store employees.

3. The salaries are lower, and while there are opportunities for advancement the number who actually do advance must of necessity be very small.

4. A great deal of physical strain is required, such as constant standing and moving about, not usually required in offices.



5. Managers and department heads in retail stores are frequently objectionable in manner and crude in their efforts to correct errors. Employees are frequently bullied by their supervisors. Employees must ask for salary increases and advances, which are held out at time of employment, but which rarely materialize and must be sought in order to be obtained. An employee who may give two or three evenings of overtime work per week is likely to be called down for being tardy two minutes a single time.

6. Retail store employees in larger stores are always under suspicion. They are subjected to the vigilance of store detectives and floor men.

7. Employees are treated as inferior beings. They are required to use back-door entrances and ride in freight elevators. Accommodations for them such as locker rooms, lunchrooms, and wash rooms are frequently unattractive and sometimes unsanitary.

8. There are few holidays, and vacations are short in retail store work.

9. No matter how unfair the customer, the customer is always right.

10. Emphasis is always placed upon the good of the store rather than on the employee.

11. An employee in a large retail store is treated simply as a cog in a machine. Other people in the department, including department heads, are indifferent and all arrangements are subjected to rule. There is no chance of expressing individuality. All the thinking and planning is done by higher-ups.

12. The environment is frequently unhealthy. Many stores are poorly lighted, heated, and ventilated.

# CHAPTER XI

## SALARIES AND WAGES IN RETAIL STORES

The high costs of salaries, wages, and other forms of remuneration to those employed in retail store work constitutes ample reason for special consideration of this subject. In this, the largest of all items of retail operating expenses, there probably lie the sources of greatest loss and, on the other hand, the greatest opportunity for improvement in working efficiency.

Wage rates, generally speaking, have increased enormously during the last fifteen years. In the meantime, the prices of goods and sales volumes have also increased so that the relation of salaries and wages to the volume of business transacted is not so very different from what it was in 1913. There have been considerable increases in the percentages of salaries and wages of the administrative office and of service departments of retail stores to net sales, but the percentages of salaries and wages of salespeople and of buyers seem to have held their own.

It is difficult to determine what the exact trends have been for the reason that figures such as are available for recent years are not always to be had for the earlier years. Comparisons cannot be made easily. Furthermore, there have been changes in the organization of retail store work, including increased division of labor, which also make comparisons difficult. The work performed by the various classes of retail employees has greatly changed.

Some light on the amount and variations in salaries and wages paid in retail stores of various kinds was contributed by the U. S. Census of Retail Trade in 11 Cities, compiled





in 1927. It was found in that Census that the average wages of the employees in 1927 in all cities amounted to $1,370, ranging from $1,182, the average in Baltimore, to $1,508, the average in San Francisco. By kinds of business, average wages ranged from $797 in the variety goods business to $2,074 in optical goods.

According to the 1927 Census of 11 Cities, salaries and wages amounted to 12.93% of sales, ranging from 10.49% in Fargo to 13.45% in San Francisco. The range in percentages of salaries and wages to sales by kinds of business extended from 6.24% in the fruit and vegetable business to 24.06% in the stationery, book, and magazine business, and 25.41% in the typewriter and calculating machine business.

Of the total number of 47 kinds of business listed in this Census, salaries and wages fell below 10% of sales in 10 classes of business, including automobiles, cigars and tobacco, dry goods and notions, fruits and vegetables, general merchandise, grocery and delicatessen, hay, grain, and feed, meat, poultry, and fish, toys and games, and the unclassified kinds of business.

Salaries and wages amounted to from 10% to 15% of total sales in 22 lines of business. Among those in which salaries and wages amounted to more than 15% of total retail sales were bakeries, jewelers, dairy and poultry products, drugs, electrical appliances, florists, furniture, millinery, musical instruments, office equipment, optical goods, plumbing and heating supplies, restaurants, stationery, books and magazines, typewriter and calculating machines. It will be noted that all of the concerns named above in which salaries and wages range from 15% upwards of net sales are types of business in which much time is required either in selling or in service connected with the sale or both.

It is possible to present some facts regarding the distribution of salaries and wages by various kinds of work carried

on in department stores. Similar departmentizations of expenses have not been made, or at least are not available for other types of stores. Executive salaries and wages, according to the Harvard Bureau of Business Research study of department stores for 1928, range from .78% to 2.55% of net sales. Salaries and wages for buying range from 1.13% to 3.28% of net sales. Salaries for publicity range from .46% to .99% of net sales. Salaries and wages for actual selling range from 5.47% to 8.18% of net sales.

Employees in the executive and administrative divisions of a department store make up from 12% to 15% of the total number of employees and receive about the same proportion of the total salaries and wages. Buyers and their assistants make up from 10% to 12% of the total number but receive from 20% to 25% of the total salaries and wages. The advertising division averages from 1½% to 2% of the total number of employees but receives about 3% or more of the salaries and wages of the store. Salespeople make up 60% to 65% of the total percentage but receive from 50% to 55% of salaries and wages of the store.

On examination of salaries and wages directly charged to merchandise departments within department stores, considerable variation will be found. In general, the percentages of expense of salaries and wages to net sales run considerably higher in men's goods than in women's lines and, quite naturally, higher in goods requiring high sales ability or considerable service before sales may be effected.

There are likewise wide variations in the percentages of selling expense in the same departments and lines of goods in different retail stores. For example, in departments in which direct selling expense averages 5% of sales, one may find individual departments in individual stores that are otherwise apparently similar, in which this sales expense is as low as 3% and others in which it is as high as 7% or 8%.



These variations indicate the need for intensive study and comparisons. They point to the possibility of improvement, particularly among the high percentage departments and possible standardization not only in salaries and wages but also in sales production or achievement.

**Essentials of a Good Wage Payment Plan.**—There is fairly general agreement as to the conditions or essentials of a good wage payment plan. There is no such general agreement, however, that any particular wage plan satisfies these conditions. The ideal wage payment system is yet to be devised, if, indeed, it can be devised.

1. Simplicity. A good wage payment plan should be simple. It should be easy to explain and easy to understand. No wage payment plan can be satisfactory or effective unless its operation is fully understood by employees. Any plan adopted should likewise be easy to operate. Too much technicality or red tape has spoiled many wage arrangements, otherwise ideal.

2. Fairness. A good wage payment plan should provide for freedom against personal prejudice and discrimination of any kind. Fairness is fundamental.

3. Promptness of Remuneration. Promptness of payment is another essential. When salaries or wages, either in part or full, are deferred, they lose their value as incentives to best efforts.

4. Certainty in Amount. It is generally agreed that remuneration should be definite and regular for rank and file routine workers. Stable weekly amounts are much more preferred than remuneration that varies greatly from week to week. The methods of living of most retail store employees, their commitments, living expenses, and other outgo are usu-

ally so definite as to make definite weekly payments even in smaller amounts more to be preferred than a higher but more uncertain remuneration.

5. Proportional to Productiveness. From the standpoint of the retail executive a good wage payment plan should secure uniform costs of operation. Salaries and wages should bear definite relationships to production or achievement. It should also be kept in mind, however, that many retail store employees must occupy positions in which their presence as well as their achievement is of value. They are called upon to give information to customers, to prevent damage or theft, and to assist in various ways that would be very difficult to measure by any production standards.

6. Incentive to Best Efforts. The wage plan should be such as to stimulate the best normal effort. Emphasis is placed on normal effort for the reason that natural or abnormal efforts are almost certain to be followed by slumps so that the advantages gained by superactivities are usually lost in the periods following.

7. Both Employer and Employee Should Share in Increased Efficiency. Finally, the wage plan should make it definitely possible for both the employer and the employee to share in increasing efficiency and production. The employer deserves this share for devising and planning the means of securing such advantage. The employee deserves his share for his participation and contribution of effort.

**Basic Principles of Wages as Applied to Retail Store Work.**—The principles of wages are the same in all lines of work, but the conditions under which they operate may be somewhat different. In general, there is a market rate of wages for common average workers. This rate is largely fixed by supply and demand modified by such factors as the number



of workers available, the competition of stores and other industries using such workers, the conditions peculiar to the work, such as its regularity of hours of work, holidays and vacations allowed, opportunities for promotion, hazards and unpleasant features, the standards of living desired by the workers and required by the employers, the customary wages paid, the social conditions of employment, and so on.

There is a basic market wage rate in every industry which represents the wage that must be paid to the average marginal adult worker who possesses no special acquired or natural degree of skill or ability. From this basic wage rate individual wage rates are graded upwards, depending upon the difference between the individual's skill and productiveness and that of the average worker who receives the basic wage rate.

Wage rates are unlike commodity rates largely because of the wide differences in human ability and efficiency. There are not only wide differences in individuals as to the amount of product or achievement but also as to the quality of product, differences in use of materials and other economies, differences in the amount of time required to learn new operations, differences in requirements for supervision and discipline, and, finally, in cooperativeness and general value to the business.

Variations above the basic wage rates are made for differences in skill and productiveness above the average of these qualities among average adult workers. Variations below the basic wage rates may also be made for apprentices, young people who must be trained and who require intensive supervision, and for handicapped workers. Obviously, variations from the full, daily, or weekly basic wage rates are also made for part-time employees.

**Forms of Remuneration: 1. Straight Salary.**—The straight salary plan of remuneration of so much per day, week, or month is the most common and probably the oldest form of remuneration for retail store employees. It is undoubtedly

the best plan for small stores where each person employed must perform many kinds of work and where record keeping of units of work would be laborious, if not, indeed, impossible. The straight salary method of remuneration is simple and convenient. It assures regular earnings. There is nothing in the method of computation concerning which arguments may arise, it can and should be adjusted to suit changes of conditions. Under this plan retail store employers may secure a high degree of loyal, honest effort. It may be possible with this plan to secure service that best suits customers. Employees may be assigned anywhere. They may be transferred from department to department. It is usually easier to hire people when a straight salary is offered and the turnover among new people is lower than where there are other forms of remuneration.

The drawbacks of the straight salary plan are that it provides little direct stimulus to increase production. There is nothing in the plan to induce special individual efforts. It tends to make employees easy-going. It places no emphasis on specific results. There is a constant tendency under this plan of remuneration for personnel expense to rise disproportionately. While simple in outline and easy to establish, in order to secure the best results the straight salary method of remuneration requires the most careful supervision of employees, and increases in salary and promotions are dependent upon personal opinion and judgment rather than definite records of working efficiency.

**2. Straight Commission.**—A commission naturally takes the form of a percentage paid on the amount of sales, therefore this method of remuneration is used mainly among sales employees. It is used extensively in certain types of retail stores such as furniture, floor coverings, men's clothing, shoes, musical instruments, and other goods of high unit value requiring real selling ability. The amounts of commissions paid in retail



stores range from 3% to 8%. Commissions of 4%, 5%, and 6% are frequent.

In some cases commission rates are changed in accordance with the season and opportunity offered to sell. Thus a low commission rate is paid on sales of men's clothing at the height of the spring and fall seasons and higher commission rates are paid in the duller periods in between.

Commission rates are also sometimes varied for different classes of merchandise. A successful men's clothing establishment pays its salesmen a commission of 3% on lower-priced goods, 3½% on medium-priced goods and 4% on high-priced goods.

Retail salesmen paid on a commission basis are usually allowed to draw certain amounts per week, records of which are kept in what is known as a drawing account. The amount that may be so drawn may be as fixed as a salary but is usually kept below the average earnings in commissions. In some stores the weekly drawing account is held at 80% of last year's weekly commissions. Settlements for the remainder of the commission due the salesmen are made monthly or quarterly, and in a few cases semi-annually or even annually.

The straight commission method of remuneration provides the most effective stimulus to individual sales activity of any known plan. It secures prompt attention to customers' wants, it encourages salesmen to build up a personal following of customers, it tends to eliminate excess people, it stimulates a strong interest in the business. The management is not forced to give the close supervision to secure constant regular effort such as under the straight salary plan.

On the other hand, the straight commission method of remuneration tends to cause salespeople to look upon customers as the source of their bread and butter. When they are not closely watched, salespeople "grab" customers away from each other and it is very difficult to eliminate unfairness. Salesmen tend to force high-priced merchandise on customers

and to rush sales. Shoppers who are just looking are very quickly passed up, as are also customers whose purchases run into small amounts.

In most lines of goods there is a considerable seasonal variation which is certain to be reflected in the earnings of the salespeople. During periods of sales depressions there is likely to be much discouragement and considerable turnover. New employees usually have a hard time establishing themselves in an organization in which the salespeople are on a commission basis. When a salesman with a personal following leaves a retail store some part of those customers also go with him to his new position.

**3. Salary and Commissions.**—A method of remuneration found in some of the largest and most successful department stores is a combination of a straight salary with a low commission. The salary rates are usually basic market rates or very closely that. The commission rates range from ½% to 2% of net sales. Some stores give the same commission in all departments; others vary the commission rate in different departments.

The combination of the salary and commission plans of remuneration are intended to preserve the strong points of each and to overcome the disadvantages of each. The salary part of the plan assures a regular weekly payment while the commission is supposed to serve as an incentive to the individual to higher productiveness.

There is considerable difference of opinion as to the effectiveness of this plan. Those who favor it urge that it secures the results desired, while those who oppose it claim that it is but little, if any, more effective than a straight salary plan as an incentive to higher activity. The amount of the percentage of commission, it is urged, is too small to serve as an incentive. A salesperson receiving a salary of $20 a week and ½% commission on sales, on a week's production



of $400 is paid a commission of $2, making the total pay for the week $22. Increasing the sales for the week to $500, if this were possible, would pay the salesperson only $22.50. Is the additional 50 cents remuneration sufficient to make the effort worth while?

**4. Quota and Bonus Wage Rates.**—Quota and bonus wage plans, which have attained considerable use in the industrial field, particularly in concerns in which scientific management has been applied, have also been used to some extent in retail stores. The quota represents the amount of production or achievement which the employee is expected to attain. A bonus or addition to the salary is paid as a reward for production or achievement above the amount set in the quota.

As applied to retail salespeople, the quota is an amount of sales which the salesperson is expected to attain. A regular salary is paid for production up to and including this quota, and a bonus or commission is paid on sales above the quota.

Sales quotas in retail stores are usually computed on department sales costs bases. If, according to past experience, it requires a $500 sales payroll to secure a sales volume of $10,000, then the sales costs amount to 5% of sales and the quota and bonus plan is applied by establishing a regular or usual wage for each employee, computing the quota of sales that must be secured by each at the rate of 5% of sales costs, and then allowing a bonus for exceeding these quotas. The bonus amounts vary considerably from store to store. In some stores they are as low as 1% or 2%, in others as high as 5% or 6%, of sales above quotas.

In discussions among retailers it has been frequently urged that the bonus should amount to about one-half of the sales expense rate, that is, in a department with a 5% sales expense, the bonus, according to this suggestion, should amount to 2½% of the net sales above quotas. The reasons, other than attempting to keep down the wage costs, for fixing the bonus

rates at something less than the department expense rates are not very clear. In order to make any remuneration plan effective as an incentive to greater effort it would seem that the results of such effort should be met by at least equal rates of pay.

Bonus plans in retail stores are usually actually devised to reduce the rate of remuneration per unit of sale as the production of the employee increases. A bonus rate is something less than the department sales expense rate and is therefore, in a sense, a penalty on increased production. A bonus rate fixed at less than the department sales rate seems to indicate that retail store managers are afraid of letting salespeople make unusual efforts and of raising incomes much above the average.

That the practice of retail store managers is inconsisent with their expressed desires to secure increased efficiency from their salespeople can easily be made clear. Let us suppose that a retail store or a department enjoying a sales volume of $100,000 a year has a total operating expense rate of 25% of sales, of which 5% is for direct selling expense, 10% for fixed overhead, and 10% in variable expenses that increase as the sales increase. The expenses of this concern would, therefore, be as follows:

| | |
|---|---|
| 5% sales expense | $ 5,000 |
| 10% fixed overhead | 10,000 |
| 10% variable expense | 10,000 |
| Total | $25,000 |

If it were possible by increased efficiency of salespeople to raise the sales of this concern to $125,000 per year it would be profitable for the retail store to allow those salespeople a bonus on the increased sales at the full department expense rate of 5%. Even if the bonus were fixed at a rate twice as high as the regular departmental sales expense rate, the results would be profitable to the store as may be seen from the following figures:



| | |
|---|---|
| 5% sales expense on $100,000 | $ 5,000 |
| 10% bonus on increase of $25,000 | 2,500 |
| Fixed overhead, assumed to remain the same | 10,000 |
| 10% variable expense | 12,500 |
| Total | $30,000 |

The total expense of $30,000 amounts to but 24% of the new sales volume of $125,000 per year. In spite of the double rate bonus the sales expense actually declines 1% on sales, for, as sales are increased the percentage of expense for overhead is reduced. Instead of cutting down the percentage of remuneration for sales above quota, a policy of increasing the rate of bonus as the sales are increased should prove an economy to any retail store. Instead, bonuses are pared down to the point where they no longer serve as incentives and the net results of the operations of most quota and bonus plans in the majority of retail stores are insignificant.

The quota and bonus idea was much discussed and widely adopted in the years following 1910. It grew up with the popular acceptance of the scientific management movement. During the period from 1919 to 1924, many stores established remuneration systems embodying variations of the quota and bonus system. In many of these, however, these plans have not justified the early expectations and some retail stores that have had quota and bonus plans have actually given them up. There appears to be no rapid expansion of this plan going on in retail practice at the present time.

**5. The Joseph Horne Quota and Bonus Wage Plan.**— One of the most interesting as well as one of the most successful variations of the quota and bonus plan of remuneration of salespeople is one used by the Joseph Horne Co. in Pittsburgh. This plan was first established in 1910. It has had several modifications in detail but not in principle. Its essential features are as follows:

At the end of each semi-annual period, the sales costs in each department in the store are analyzed and the wage rate in per-

centage of sales determined. These rates are added to the corresponding season rates for the preceding four years and a new five-year average rate is computed which serves as the basic department rate in fixing the sales quotas and sales bonuses for the coming season.

Using these departmental five-year averages as a basis the next step is to assign to each regular salesperson her season's quota. She is told that to earn her salary in the department she is now in it will be necessary for her to sell during the coming six months' period an average of so many dollars per day; and since the department is busier at some periods than others it will be necessary to exceed this amount during some periods in order to cover others in which the sales fall below the required amount.

The salesperson is also notified as to the conditions under which bonuses may be earned. The amount of the bonus is computed as the department's five-year average selling wage per cent of all sales exceeding the season's quota. The bonuses are paid semi-annually within fifteen days after the end of each season. If an employee leaves before the date of payment of this bonus she will not be paid a bonus unless she has been in the employ of the company at least three months.

During the season salespeople are given individual monthly reports, showing their gross sales, credits, and net sales, average weekly sales, number of transactions, and monthly quotas, so that they may know at the end of each month just how they stand and so they may know what the outlook is for a good bonus at the end of the six months' period.

At the end of each semi-annual period the results for each salesperson are compiled and checked up. These individual sales reports are gone over with the buyers or department managers to get their reactions regarding each salesperson. Where special consideration is due, notations to this effect are made on the margin of the reports. The bonus, while computed on increases in sales above quotas, is not paid unless the



services of the individual salespeople have been satisfactory in other respects.

Salespeople are also carefully rated in accordance with a rating scale for salespeople devised by the Research Bureau for Retail Training of the University of Pittsburgh and described in detail later in this chapter. Each salesperson is rated according to this scale twice a year by the buyer, assistant buyer, and floor man, independently of each other. In addition to its use in determining whether a bonus shall be paid or not, it also serves as the basis for interviews with employees, usually held twice a year by the employment manager and training directors, at which time the shortcomings of the salespeople, as indicated in the rating scale, are pointed out and suggestions made for improvements.

After the individual sales reports have been passed upon by the buyers, they are finally reviewed by an officer of the company and the bonuses due each salesperson are then entered on the reports.

When a new salesperson is engaged a salary is fixed which the company believes can be earned during the first season, and the quota and bonus plan is established at once on an estimated basis. Salespeople engaged for temporary positions are not given quotas, nor is it practicable to set definite sales quotas for contingent salespeople.

At the end of each semi-annual period all salespeople who have not earned their salary under the quota system established are notified. They are requested to make an effort to bring up their sales but do not have their salaries reduced. During the following season if they do not then earn their salaries they are either given a trial in some other department or are dismissed.

To cover cases in which individual salespeople have other duties to perform, such as stockroom work or other work away from the sales floor, which tend to reduce their sales, is given a quota which is reduced in accordance with the rising ratio

of absent time to total working time. An employee who can be in the sales departments only 20 days out of a month as against another employee's 25 days, other things being equal, has a sales quota only four-fifths as high as the second. Time deductions from quotas must be approved by the buyer or department head in order to pass credit in the salesperson's sales records.

The Horne wage plan has attracted a great deal of attention all over the country, not only among department stores but also among other types of retail institutions as well. It undoubtedly represents the high-water mark of successful adaptation of the quota and bonus idea in large retail institutions. Joseph Horne salespeople are said to receive high wages, but the departmental sales costs are not abnormal and the grades of sales service obtained are very high.

**6. Group Bonus Plans.**—Another variation in the quota and bonus plan is to pay regular straight salaries to individual workers but bonuses to groups. Sales production quotas are set for departments instead of for individual salespeople, and bonuses for sales above quotas are paid to the entire department group, generally divided among the members of the group in proportion to the salaries received. The group bonus plan promotes team work and eliminates quarrels about credit, sales grabbing, and so on. Many retail executives who have had discouraging results from ordinary quota and bonus plans are looking hopefully to the possibilities of the group bonus. This plan seems to be gaining ground.

**7. Special Bonuses, P.M.'s, Spiffs, etc.**—These are old forms of remuneration in retailing. They are usually paid to salespeople for special efforts in such directions as the following:

a. Greater sales of certain goods, such as own brand, high-profit goods, higher-priced lines, etc.



b. Selling "double-headers," that is, double quantities per sale.
c. Selling slow-moving or old goods.
d. Making suggestions to customers resulting in additional sales either in same department or in other departments.

Such methods of remuneration are direct and effective in producing the results desired and are widely used. There are disadvantages, however, such as the tendency to urge customers to buy goods that may not fully satisfy them which in turn may result in the development of ill-will for the store. Offers of bonuses tend to concentrate the attention and interest of salespeople in the goods on which bonuses are paid rather than on the goods that may be most in demand and most easily sold. A retail store departs from its real purpose of serving the public whenever special interest or attention is given to pushing the sale of goods that are not in demand.

Special bonuses not specifically related to any particular type of store activity or achievement, such as end-of-the-year payments and Christmas gifts, are more in the nature of presents than remuneration for service. There are many stores, however, that pay bonuses for regularity of attendance and punctuality, and for long-period service. Bonuses are also sometimes paid for improvement in service and for the discovery and correction of errors.

**8. Supplementary Forms of Remuneration.**—Retail store work usually offers various supplementary forms of remuneration, such as employees' discounts on merchandise purchased through the store. Group insurance, old-age pensions, sickness and disability relief, physical examinations and health maintenance, vacations with pay, lunches at low costs, and so on, are also indirectly forms of remuneration.

There is no regularity from concern to concern in these supplementary forms of remuneration. Most retail stores offer

their employees discounts ranging from 5% to 20%, averaging perhaps 10%, on purchases made in the store. Usually such discounts are allowed solely for goods bought for the personal use of the employee or the use of the persons entirely dependent on the employees. A few stores go farther and encourage the sale of goods to employees and their families as a desirable form of business so long as not subjected to such abuses as resale to outsiders.

Group insurance and pension systems exist in a number of stores, both large and small. In some cases contributions to these services are required of employees. In other cases they are entirely supported by the management. Group insurance and pension plans are coming into wide use, very properly, in the retail trade. Sickness and disability relief has been provided by most stores for many years by means of mutual aid associations, to which both employees and the stores make contributions. Vacations of from one to three weeks, generally two weeks, with pay are allowed by most retail stores.

Special forms of remuneration are frequently used for employees in non-selling departments, particularly in department stores such as allowing half-holidays with pay for completing required returns, trial balances, and other statements accurately before certain stated dates. Customers' ledger clerks who get out their statements to customers on or before noon of the second day of each month, so such proposals often read, may be allowed a half-day off with pay.

In lieu of the commission method of payment used for salespeople, special piece rates are applied in non-selling departments such as 1 cent per posting on every bill in the customers' ledgers, ½ cent per credit authorization, 1 cent per package wrapped, and so on.

Group and bonus plans are likewise used in non-selling departments when it is possible to establish certain production standards for which the regular wage rates are paid. Bonuses are then provided for production above these quotas. Thus,



in the accounts receivable section of the accounting department, quotas are sometimes set up handling 400 sales tickets per day per clerk, and a bonus is paid for production above quota at the rate of 25 cents per hundred. Quotas for credit authorizers are sometimes set at 750 tickets per day with bonuses of ½ cent per ticket for all handled over the quota. Delivery sheet writers sometimes have quotas of 1,000 packages per day with an allowance of a bonus of 30 cents per thousand packages above the quota.

Bonuses or premiums are frequently paid to inspectors, wrappers, cashiers, authorizers, and bookkeepers for detecting errors. Penalties are likewise sometimes inflicted for the commission of these errors. The best practice in regard to penalties seems to be to charge them against the bonus account but not against the regular salaries.

**Conclusions as to Methods of Remuneration.**—The straight salary method of remuneration is most generally used. The commission method of remuneration is common in certain lines but is not suited to general use. The salary and commission plan has powerful adherents among some of the largest stores. The quota and bonus plan is probably best in theory but has not so far worked out in practice in an entirely satisfactory way except in a few instances. The group bonus plan is receiving considerable favorable attention.

**Rating Employees.**—As an accompaniment of methods of determining wage rates, wage increases, and promotions, there has been a great deal of consideration given to methods of rating employees.

**Achievement Ratings.**—The common bases stated for ratings include production or achievement such as the amount of sales, the number of sales, the proportions of total possible sales actually made, the number of suggestion sales made, and

so on. Achievements in non-selling departments used as bases for computing quotas include such items as number of packages delivered and the time required for making deliveries, by the number of telephone calls handled, the number of sales checks posted and billed, the number of credit authorizations, the number of lines typed, and the number of parcels wrapped.

**Quality Ratings.**—Another basis for rating employees is by the use of rating scales, on which are set down all important qualities necessary to success in the work to be done. Among such qualities as are believed to be important in retail salespeople, there are usually included health, appearance, manner, initiative, industry, accuracy, loyalty, cooperation, responsibility, and knowledge. In a rating scale using these qualities as points for consideration it is customary to assign a weight or numerical importance to each and grade each employee much as in a school examination.

Ratings based on achievements can be quite accurate because entirely objective. The records of units sold or packages handled speak for themselves. Ratings based on desirable personal qualities must, however, be a matter of opinion among those who do the rating. Some degree of standardization of judgments may be attained by means of comparison of one employee with another or by comparison with some standard of performance or of quality. Where several employees are concerned, rating of qualities may be effected by ranging these employees in order of merit, one after the other, through the entire list. Where this may be too difficult it may be more practical to divide all of the employees in a few groups, classifying each of these groups as good, fair, and poor.

A variation in rating known as the "Scott man-to-man comparison" determines the rating of individuals by comparison with persons whose achievements and qualities are selected as standards. The rating consists in determining in each case whether the employee is as good as, better than, or poorer than



the person selected to serve as the standard. This test takes its name from Walter Dill Scott, now President of Northwestern University and a pioneer in the application of psychology to advertising and personnel problems.

**Methods of Indicating Ratings.**—Ratings are usually represented (1) by some system of descriptive terms such as good, fair, and poor, (2) by percentage grades assigned in the same way as in skill examinations, and (3) by linear scales in which the supervisor, or other person making the rating, marks off on a line representing a quality the proportion of which he believes to represent the degree of importance of the quality under consideration. When these representations, whether in descriptive terms, percentages, or lines, are reduced to graphic forms, (4) they are known as graphic ratings.

**General Factors for Consideration.**—The difficulties of securing fair ratings constitute the main stumbling blocks of all rating systems. The first problem is that of selection of important qualities or facts for rating. Strangely enough, there is not yet any definite, authoritative list of qualities known to be absolutely necessary to good retail salesmanship. There are excellent retail salespeople who in a rating system would seriously fall down on every point conventionally considered necessary, excepting that they are able somehow to sell a lot of goods. Such cases are, no doubt, exceptional, but they prove at least that we have not yet reached a scientific understanding of the qualities necessary to good salesmanship.

No less difficult is the problem of securing independent, impersonal, unbiased judgment of these qualities. Precautions may be taken against certain influences such as friendship and extreme prejudice, but the personality factor is certain to remain important. Provisions are usually made to secure ratings from more than one person and to have them made independently of each other.

A rating system is an essential feature of proper personnel

control in every large retail system and is a help in the management of employee problems even in small stores. Ratings of retail salespeople in the large stores are usually secured from department heads or buyers and floor managers. In some of the most successful retail institutions, accurate and timely records are kept of every measurable phase of each person's work in the store. These records are used in the regular periodical reviews for purposes of increasing salaries or making promotions, and are laid before the individual for his consideration as well as before the management. Rating systems should, of course, emphasize the qualities that are good as well as those that need improvement, and may be made to serve as an excellent basis for both individual and group training. Figures 51 to 53 present rating scales in use in well-known retail institutions.

**The University of Pittsburgh Rating Scale for Salespeople.**—One of the best and certainly one of the most widely used rating scales for retail salespeople is that prepared by the Research Bureau for Retail Training in the University of Pittsburgh. This rating scale was first devised in 1924, and used experimentally in one of the Pittsburgh department stores as stated earlier in the chapter. Its use has more recently spread not only to other Pittsburgh stores but to many other retail institutions throughout the country. Figures 54 and 55 present this rating scale in reduced size.

This scale calls for ratings of individual salespeople on seven points or qualities, namely: (1) appearance, (2) manner, (3) cooperativeness, (4) treatment of customers, (5) knowledge of merchandise, (6) stock-keeping, and (7) industry.

Each quality is given five distinct grades. The person doing the rating, usually a buyer, assistant buyer, or floor man, after familiarizing himself with the scale, need only check the description of each quality which, in his opinion, fits the salesperson being rated. Such definite grades as "Always per-



| If in your opinion the Salesperson's rating is<br>Perfect, mark "5"<br>Excellent, " "4"<br>Good, " "3"<br>Fair, " "2"<br>Poor, " "1"<br>Bad, " "0" | HEALTH | APPEARANCE | MANNER | INITIATIVE | INDUSTRY | ACCURACY | LOYALTY | CO-OPERATION | RESPONSIBILITY | KNOWLEDGE | TOTAL | DEPT.<br>DATE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Names of Employees) | | | | | | | | | | | | |
| | | | | | | | | | | | | |
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Figure 51. Retail Store Employees' Rating Sheet

In considering the health of the employee, the executive making the report must consider regularity, punctuality, overtime, absence, sick passes, care, appearance, alertness, and cheerfulness.

Appearance includes cleanliness, coiffure, neatness, ornaments, cosmetics, and dress.

The manner of the employee is judged by courtesy, patience, spirit, responsiveness, voice, speech, attitude, and disposition.

The employee's initiative is rated according to resourcefulness, attentiveness, suggestibility, originality, care of stock, ambition, and alertness.

Industry is determined by attendance, promptness, application, enterprise, attentiveness, and readiness.

Accuracy depends upon correctness, truthfulness, frankness, and honesty.

The loyalty of the salesperson is rated by her obedience, aspiration, interest, enthusiasm, and faithfulness.

Cooperation is judged by obedience, aspiration, good-fellowship, willingness, effort, and interest.

Responsibility includes initiative, salesmanship, stock-keeping, cooperation, loyalty, and trustworthiness.

Knowledge on the part of salespeople should embrace a comprehension of system forms, rules, directory, stock, sources, information, and advertising.

The non-selling requirements not included in the above are thoroughness and speed.

*For Personnel Dept.* 7

New blanks will be distributed every six months for new ratings.

## Manager's Rating of Mr._____

Store No..... Town..... Mgr..... Date.....

Age..... Length of service with Co..... Length of Service Your Store..... Yrs..... Mons.

| | | | |
|---|---|---|---|
| Married or Single..... | Monthly Salary..... | What is his present rank or standing in Store? 1st Man..... 2nd Man..... 3rd Man..... 4th Man..... | Position ahead he can NOW handle in your own Store? Mgr..... 1st Man..... 2nd Man..... 3rd Man..... |
| Total No. of Dependents (including himself)..... | Religion..... | | |
| Age of children..... | Languages Spoken..... | | |
| ..... | ..... | | |

| | | |
|---|---|---|
| No. Lessons Completed Business Training Course | Has he completed Advertising Lessons? | No. Years Experience Outside Our Co. |

Do you think he should be TRANSFERRED Why? Where?

**INSTRUCTIONS:**—Please answer EVERY question. Use INK.—Not pencil.

To rate a man put a check (√) mark on the line at the place which best expresses your judgment: Each column represents a degree of proficiency. First column EXCELLENT, second column GOOD; third column FAIR; fourth column POOR, and the fifth column the lowest or negative degree. Consider these degrees and rate the man in the proper column according to his proficiency.

| | | | | | |
|---|---|---|---|---|---|
| **1. CHARACTER** Is his personal conduct at all times entirely satisfactory to you? | Excellent | Good | Fairly Good | Questionable At times | Poor Reputation |
| **2. TRUTHFULNESS** Does he tell the truth on all occasions? | Implicitly Truthful | Reliable | Dodges the issue | Untruthful in small things | Cannot be trusted |
| **3. HONESTY** Is he honest in money matters? | Highest Integrity | Reliable | Not yet Determined | Questionable | Should be Investigated |
| **4. LIVING WITHIN INCOME** Is he making an honest effort to live within his income? | Complete Control | Improving | Just able make both ends meet | Unable to manage own finances | Extravagant |
| **5. OUTSIDE CREDIT** Is his credit good — does he pay bills promptly? | Pays Cash | Pays bills Monthly | Buys on Installments | Bills over 6 mos. old | Badly In debt |
| **6. APPEARANCE** Is he neat in his personal appearance—clean shaven, and tidy—before the public? | Very Neat | Neat | Fair | Untidy at times | Always careless |
| **7. HEALTH** Consider health in relation to his ability to work. | Robust | Good | Just fair | Sickly | Chronic Ailment |
| **8. PERSONALITY** Consider how he impresses you as well as others by his manner, dress and bearing. | Winning | Good | Fair | Indifferent at times | Repellant |
| **9. RESPONSIBILITY** Does he accept responsibility readily? | Aggressive | Willing | Fair | Timid or fearful | Incapable |
| **10. INDUSTRY** Is he a willing worker? Does he adjust himself readily to work assigned to him? | Hard Worker | Steady | Fairly Industrious | Works only when supervised | Slacker |

Figure 52. Illustration of Employees' Rating Blank Used by the J. C. Penney Co.

This analysis and rating is secured on every employee in all of the stores of the company once every six months. This rating system uses both descriptive terms and a linear scale.



*Continued*— Report on Mr. .....

| | | | | | |
|---|---|---|---|---|---|
| **11. COOPERATIVENESS** Does he cooperate willingly with others? | Splendid | Good | Fair | Does not cooperate | Bad influence in store |
| **12. LOYALTY TOWARD COMPANY** Consider his attitude toward the Company. Is he sold on our plan? | 100% J.C.P.Co. | Enthusiastic | Can be depended on | Not completely sold | Destructive Critic |
| **13. ECONOMY IN BUSINESS** Does he show an inclination to utilize and care for supplies, fixtures, etc? | Thrifty | Exercises Care | Average | Rather Careless | Reckless |
| **14. MERCHANDISING ABILITY** Consider his judgment in requisitioning new merchandise, knowledge of values, marking goods and his ability to interpret public demand. | Excellent | Good | Fair | Poor | None |
| **15. ORGANIZATION ABILITY** Consider his ability to direct others, organize, supervise and get results—to maintain discipline and command respect. | Excellent | Good | Fair | Poor | None |
| **16. MANAGERIAL FITNESS** Based on his character, intelligence, experience and attitude toward company, is he ready to manage a store? | Now ready to manage | Within six months | Within one year | Over one year | Beginner |

In your opinion will this man make a J. C. Penney Co. Manager. Answer Yes or No._____

| | | | |
|---|---|---|---|
| **DEVELOPMENT** Has he developed during past six months? | Marked..... Steady..... None..... | **WINDOW TRIMMER** Is he a good window trimmer? | |
| **SPECIAL FITNESS** In what departments or lines is he strongest? | | **OVERTIME** Does he put in overtime willingly? | |
| **WEAK LINES** What work seems most difficult for him? | | **DOES HE OWN A CAR?** What make? Is it fully paid for? | |
| **SALESMANSHIP** Is he a good Salesman? Does he create new business? | | **HOME LIFE** Is it congenial? Is his wife sold on our proposition? | |
| **STOCKKEEPER** What kind of a Stockkeeper is he? | Systematic and Careful..... Average..... Careless..... | **RELATIVES** Is he in any way related to you or anyone else in the Company? | Who? Relationship? Where? |

| | Clothing | Men's Fr'ng | Shoes | Dry Gds. | Ready-to-Wear | Advtg. | Window Trim'g | Pricing Mdse. | Writing Orders | Office |
|---|---|---|---|---|---|---|---|---|---|---|
| How many months (in last six months) has he been detailed to this type of work? (State number months). | | | | | | | | | | |
| How many of these departments has he successfully handled in your store. (Please check) | | | | | | | | | | |

REMARKS:

Figure 52 (*Continued*)

Identification of Salesperson. .....
Department ..... Date .....
Conditions or circumstances rendering good service difficult .....
What merchandise was shown? .....
Was salesperson able to answer questions about the merchandise? .....
Did salesperson misrepresent merchandise in any way? .....
Would you as a customer make an effort to return to this particular salesperson? .....

| | This column: GOOD | This column: FAIR | This column: POOR |
|---|---|---|---|
| Approach | Quick courteous approach. Pleasant greeting. Smile in voice and countenance. Businesslike attitude. Credit 16% to 20% | Engaged in personal or department affairs, causing customer to wait, or attract attention. Detached attitude. Credit 12% to 16% | Entirely unnecessary delay in approach. Slow and indifferent. No greeting. Complete lack of interest. Credit below 12% |
| Stock | Intelligent, thoughtful answers. Convincing selling talk. Good knowledge of merchandise, manufacturing, quality, etc. Credit 20% to 25% | Fair knowledge of goods, but unconvincing sales talk. Not thoroughly informed on stock, although willing to serve. Credit 13% to 20% | Poor knowledge of stock. Errors of fact as to kind, quality, or size. Indifferent acknowledgment to questions asked. Credit below 13% |
| Aptness | Enthusiasm. Interesting selections offered. Use of merchandise shown. Advertisement mentioned. Interest until end of transaction. Credit 16% to 20% | Mild interest. Limited stock shown. Customer permitted to make own suggestions for usage, etc. Advertisement referred to casually. Credit 12% to 16% | Disinterested. No suggestion made on sale or inquiry. No reference to advertisement. No comprehension of customer's problem. Credit below 12% |
| Store Service | Correctly directed customer to other departments, or to suggested departments. Mentioned other related departments. Credit 4% to 5% | Lacking knowledge of department or merchandise inquired for, but made inquiry from other employees, and provided information. Credit 2% to 4% | Customer sent to wrong department or floor. Careless answer to inquiries. No attempt to secure information. Credit below 2% |
| Initiative | Quick to sense customer's viewpoint. Handles emergencies well. Suggested other related goods. Respect for merchandise. Credit 12% to 15% | Lacking confidence in self and judgment. Refers emergency situations (trivial) to departmental or floor executive. Careless handling. Credit 6% to 12% | No suggestion of other goods. No effort to adapt self to customer's viewpoint. No attempt or inability to cope with emergency situation. Credit below 6% |
| Person | Inconspicuous attire, modest jewelry, neat, clean. Good English. Good posture. Pleasant manner. Credit 12% to 15% | Flashy apparel. Disagreeable manner. Hands, hair, nails, dress or make-up repellant. Credit 6% to 12% | Untidy generally. Uncouth. Bad habits. Incorrect English. Lazy, indifferent manner. Supercilious attitude. Credit below 6% |
| Grade mark, this report: | 100% to 80% Total: | 80% to 51% Total: | Below 51% Total: |

Figure 53. Sales Service Rating Sheet. (Adapted from a form prepared by Buffalo Better Business Bureau, Inc., 1928.)

This form is used by a shopper or outside rater who calls on the store in the capacity of a customer and who thereafter makes the above report on each salesperson interviewed.



fectly groomed," "Usually well-groomed," and "Slovenly in appearance," focus the attention of the rater on actual traits of the salesperson rather than upon the necessity of trying to grade on a "High," "Medium," or "Low" basis. The descriptive phrases representing various grades of each of the qualities to be rated are the most distinct characteristic of this rating scale.

A finer degree of rating is obtained by the use of a score card marked off in 10 divisions permitting final mathematical rating. Thus, in line one, in grading appearance, a rating of 4 on the scale indicates that the person rated has a tendency often to neglect personal appearance. The total possible score is, of course, 70. Out of 2,000 ratings made in a department store, the total average score was 52.7, with a range from 25 up to 66.

This rating scale is being successfully used in several retail stores and, according to reports of personnel managers and training directors familiar with it, is proving highly serviceable. It indicates what the weaknesses are and makes it possible for the training director to arrange educational work either for individuals or groups to raise the standards in these lines. It is used as a means of selecting permanent salespeople from among the extra salespeople hired for special sales. It is also used as a basis for salary adjustment when actual sales are not the only criterion. It is also of great help in making selections from among retail salespeople to fill junior executive positions, such as assistant buyerships.

The use of a rating scale has a valuable reflex effect upon the raters. It forces the buyer or floor man making the rating to give careful thought to points that might otherwise escape his attention. It thus leads to definite opportunities for correction of difficulties and weaknesses. It may often be the means of indicating that failure of a department may be due to bad purchasing or bad management rather than poor salespeople.

Name of Salesperson _____ Number _____ Date _____ Rater _____

DIRECTIONS

Read over each line carefully. On each line place a check-mark (✓) over the phrase which describes the salesperson most accurately. You can mark the line anywhere you choose: If you think the individual is about half-way between two descriptions, make your mark about half-way between them on that line.

But make only one mark on each line, and be sure to mark every line.

| | | | | | |
|---|---|---|---|---|---|
| 1 | Always perfectly groomed | Usually well groomed | Careful but could improve appearance | Often neglects appearance | Slovenly in appearance |
| 2 | Grouchy and repellent manner | Indifferent and neutral manner | Half-heartedly polite | Usually catches customer's attention | Gracious, always commands interest |
| 3 | Unfailing cooperation, glad to work with others | Usually willing to cooperate | Gives no trouble, cooperates when asked | A solo performer, never thinks of others | Hostile, pulls against rather than with others |
| 4 | Treats customers as nuisances | Indifferent to customer's needs | Does not distinguish carefully between customers | Willing to satisfy customers | Quickly senses each customer's needs |
| 5 | Knows nothing about merchandise | Must usually refer merchandise questions to somebody else | Answers some merchandise questions | Can usually answer merchandise questions | Can always answer merchandise questions correctly |
| 6 | Stock always orderly, in fine condition, well-displayed | Handles stock work without much supervision | Does stock work perfunctorily, but gets it done | Requires close supervision in stock work | Hates and avoids stock work |
| 7 | Downright lazy | Requires considerable urging | Ploddingly industrious | Usually alert | Always on his toes, a self-starter |
| | | | | | TOTAL |

Figure 54. Rating Scale for Salespeople
Published with the consent of the Research Bureau for Retail Training, University of Pittsburgh.



**The Payroll Budget.**—Budgeting in personnel is as important as budgeting in merchandising or in any other activity carried on in the store. A payroll budget, like the merchandise budget, is usually based on the past experience of the store together with the plans for sales and other activities for the coming season.

From past experience it may be possible to determine the average number of transactions that can be handled by each salesperson and the average number of units of product that can be turned out by each non-selling employee. From the merchandise plan outlining the expectations of business it may in turn be possible to determine how many employees of various kinds will be required.

Payroll or personnel budgeting must be correlated with the merchandise budget. The necessary number of salespeople, wrappers, packers, and delivery men, and other employees required must be employed in advance and properly trained so as to be ready in accordance with the requirements of the merchandise budgets.

| 10 | 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|---|---|---|

*Use the upper edge for lines 1, 3 and 6*

**SCORING CARD FOR RATING SCALE FOR SALESPEOPLE**

**Place the edge of the card on the lines as indicated. The score is the number nearest the rater's check-mark. In cases of doubt, give the lower score.**

*Use the lower edge for lines 2, 4, 5 and 7*

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|

Figure 55. Scoring Card to be Used on Rating Scale for Salespeople Shown in Figure 54 on opposite page.

To illustrate, past records may indicate that 10 salespeople in a certain department can handle 500 transactions per day, or an average of 50 transactions per person. If the average sale in this department is $1.50, then the average sales per salesperson is $75 per day. If a merchandise and sales plan is drawn up calling for a special one-week sale for that department planned to secure a volume of $1,200 a day, then it is clear that the department will require a total of 16 salespeople instead of the 10 usually employed. If there is any doubt that the sales plan will fully materialize, the personnel department may be authorized to provide a somewhat smaller number such as 14 salespeople, with the possibility of using members of the contingent staff if necessary.

Payroll budgeting involves the provision of a proper number of efficient employees at the right time and within reasonable or standard payroll costs.

**Remuneration of Buyers and Department Heads.**—All of the forms of remuneration, such as straight salary, commissions, quota and bonus plans, and mixtures of these are used in the remuneration of buyers and department heads. A variety of forms of profit-sharing are also to be found in the payment of executives. Giving the buyers or other heads of departments some opportunity to share in the progress and profit of the retail store has been customary in department stores for a long time, probably since the earliest days of such institutions. The underlying theory of department management has been to establish each head of the department as the representative of the employer in his department or, in fact, to make him almost a merchant in his own right. As a consequence, quota and bonus arrangements, as well as various forms of profit-sharing, are even more frequent than remuneration by straight salaries.

Usually buyers are allowed either a drawing account or a guaranteed salary and additional amounts payable at the



end of each semi-annual or annual period, depending upon the success of the buyer or executive in the development of his department.

Among the various forms of profit-sharing employed are the following:

1. A percentage of the net profits of the department.
2. A percentage of net sales.
3. A percentage of sales above the sales for the same period of the year preceding.
4. A percentage of sales above a certain stated amount or quota.
5. A percentage of the excess of gross profits earned above a stated amount or quota.

The arrangements of retail stores with buyers and other department heads are usually made a matter of written contract. Figures 56 and 57 show respectively a simple form of buyer's contract providing for a straight salary only and a more detailed contract in which there are provisions made for a guaranteed salary and additional bonuses payable on gains secured by the buyer from his departments. Both contract forms are typical of such documents used among department stores.

**Remuneration of Chain Store Employees.**—The rank and file employees in the individual units of chain store systems are remunerated in the same manner and by the same methods as are used in independent stores previously described. The remuneration of store managers, however, more closely approximates the methods of remuneration followed by the buyers and department heads in department stores. Certain facts about the methods of remuneration of chain store managers may be set down.

In the chain grocery field, the general practice is to pay an average salary ranging from $20 to $35 a week plus a per-

centage on gross sales ranging from ½% up to 2%. Probably, most general grocery store managers throughout the country receive a salary of from $25 to $30 a week and 1% on gross sales.

In the 5 and 10 cents up to $1 chain field, the common practice is to pay a straight salary plus the percentage of the net profits of the store. The salaries probably average from $175 to $200 a month and range from $160 up to $325. Ordi-

THIS CONTRACT made this ..... day of ..... 19.. by and between X. Y. Z. Co., party of the first part, and ....., party of the second part.

WITNESSETH:

That said second party for the consideration herein mentioned, covenants and agrees to devote (his) (her) entire time, and attention, and to give satisfactory service to said X. Y. Z. Co., in the conduct and management of the (....) Department, and in any other duties reasonably required in said first party's store from the ..... day of ..... to the ..... day of .....

The said first party in consideration of said services will pay said second party at the rate of ..... dollars per week in full for said services.

IN WITNESS WHEREOF: Both parties have hereunto set their hands and seals this ..... day of .....

WITNESSES: X. Y. Z. Co.

By.....

..... .....

..... .....

Figure 56. A Simple Form of Buyer's Contract (Straight Salary)

narily, 10% of the net profits of the store constitute the additional amount paid to the manager.

Among chain shoe systems, store managers receive from $40 to $125 per week plus additional sums varying in amount and type such as 10 cents for every pair of shoes sold, 2½% of the excess sales of the current year over the previous year's sales, and so on.

In the chain drug store field, store managers are usually paid straight salaries that run from $200 up to $350 a month. These are also usually accompanied by bonuses of various kinds such as P.M.'s on the chain's own goods or on high-



THIS CONTRACT made this ..... day of ....., 19.., by and between X. Y. Z. Co., a corporation under the laws of ..... of the first part, and ..... of ..... of the second part.

WITNESSETH:

That the said X. Y. Z. Co. hereby employs the said ..... in the capacity of ..... from the day of ....., 19..: until the ..... day of ....., 19..: and that the said ..... hereby accepts and assumes the said employment, upon the terms and subject to the conditions hereinafter set forth:

1. The party of the second part agrees to devote (his) (her) entire time and attention and to use (his) (her) best skill and energy in performing the work assigned to (him) (her), and generally to discharge with fidelity and to the best of (his) (her) ability all the duties arising out of (his) (her) said employment.

2. It is agreed that either party has the privilege of terminating this contract at any time by giving 60 days' notice in writing. Delivery of such notice by either party, in writing, addressed to the other, shall be sufficient. The party of the first part, however, expressly reserves the right to terminate this contract at any time in case the services of the party of the second part prove unsatisfactory to them.

3. It is agreed that this contract shall automatically renew itself from year to year unless written notice is given.

4. In the event of the death of the party of the second part this contract shall terminate at once, and in case of (his) (her) sickness extending beyond three months, the party of the first part reserves the right to terminate this contract.

5. In the event of the termination of this contract before its expiration, the guaranteed salary of ..... Dollars ($.....) shall be apportioned and paid up to the time of its termination, and the balance of his salary, if any, in over and above said proportion of said guaranteed salary of ..... Dollars ($.....) due to the date of said termination, shall be payable to the party of the second part or (his) (her) legal representatives at the end of said year, when the books are closed and the amount ascertained by the party of the first part. Such amount shall be based upon the proportion which the sales of said Department made during the term of service in that year bear to the total amount of sales of said Department made during that year.

6. In consideration of (his) (her) services, the said X. Y. Z. Co. hereby agrees to pay the said ..... salary at the rate of ..... Dollars ($.....) per annum, payable in (weekly) (monthly) instalments.

7. At the end of the fiscal year the party of the second part is to receive additional compensation as follows:

a. 10% of the gross profits in excess of ....% of net sales.

b. 2% of the net sales in excess of the net sales for the preceding fiscal year.

8. No additional compensation shall be due nor shall any additional compensation be paid unless the following departmental conditions shall have been maintained.

a. Net sales not less than for the preceding fiscal year.

b. Gross profit ....%; Net profit ....%; Stock turnover ....%.

IN WITNESS WHEREOF: the parties to this contract have hereunto set their hands and seals the day and year first above written.

WITNESSES: .....(Seal)

..... .....(Seal)

Figure 57. Buyer's Contract (Guaranteed Salary with Quota and Bonus Plan)

profit lines. The Owl Drug Co., with stores in the western part of the United States, uses a method of remuneration of store managers in addition to a straight salary based on savings on controllable expenses. Each manager is made responsible for such operating expenses as he has power to control or reduce, including salaries and wages of employees, heating, lighting, supplies, and inventory shortages. For definite progress in reducing such controllable expenses in relation to sales and net profits, the manager is given periodical bonuses. The methods used by store managers are of two classes, first in cutting these expenses down and, second, in increasing gross profits by pushing sales, particularly on goods that have a high gross profit.

In the chain drug store field, several organizations employ cash prize contests which apply not only to managers but to salespeople as well.

A straight salary plus a percentage of gross sales, the method of remuneration found in the chain grocery field, is often to spur the effort of store managers to secure as large a volume as possible without regard to the amount of gross profit. As a consequence, various profit-sharing plans are to be found in use, including a percentage of the net profits as in the 5 and 10 cents to $1 chain field, and gross profit quotas which must be maintained. If the gross profit quota is not secured the manager's bonus for increased sales volume is withheld.

One of the most difficult problems of chain store management is to prevent shortages such as are due to outside pilferage or to dishonest employees, breakages, careless weighing or measuring. Several chain store systems have instituted bonus systems as a means of reducing stock shortages, and also as a means of securing correct inventories.

Both large chain store organizations and department stores find it necessary to establish fairly definite production standards to which store managers and department heads must be



strictly held. Employees who fail to reach these standards after a fair trial are dismissed. Characteristic of the careful detail considered by chain store systems, such standards have often been more clearly defined among chains than among the department stores.

A well-known grocery chain store system places the following requirements upon its store managers. In store units with sales up to $500 per week, the manager's salary is $28, and 3% of sales are allowed for clerk hire on all sales over $400 per week; on store sales from $500 up to $600 per week, the manager's salary is $32, and 3½% of sales are allowed for clerk hire on sales over $400 per week. In stores with sales over $800 up to $1,200 per week, the manager's salary is $35, and 4% of sales allowed for clerk hire on all sales over $400 a week. In stores with sales over $1,200, the manager's salary is $38 with 4% for clerk hire on all sales over $400 per week. Each store is required to make a net profit as follows:

Stores doing up to $500 per week, 1% of net profit
Stores doing $500 to $800 per week, 2% of net profit
Stores doing $800 to $1,200 per week, 3% of net profit
Stores doing $1,200 or over per week, 4% of net profit

Any store manager who runs his store for six months without showing the desired profit will be changed to some other location or dismissed.

Each store manager must keep his clerk hire within his percentage allowances or take the difference out of his own salary. Store managers are not allowed any vacations and if absent must pay for all extra help out of their own pockets.

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# CHAPTER XII

## RETAIL STORE TRAINING

Retail store managers have probably always recognized the need for giving some attention to the training of their new employees. Even since the apprenticeship system passed out in this country, during the middle of the nineteenth century, new employees have usually been accorded something more than a "sink or swim" chance to learn. In the smaller stores, the owners or managers have generally instructed their new help personally. In the larger establishments, new employees have been introduced to their jobs by older employees or by heads of departments. This haphazard, though well-meaning, method of starting new employees was, of course, inadequate from the start, but in the rush of a rapidly growing country the necessity for something better developed slowly.

Retailers now generally understand the need for a specialized training for the teacher and store school for the new employees. Department heads are, in the nature of things, too busy to do this work thoroughly. Many of them lacking technical ability on how to teach could not administer this early training effectively, even if they had the time. Passing from training by unspecialized regular employees to specialized professional teachers has really been but a short logical step.

Even before 1900, busy store superintendents hiring salespeople for department stores from among young men and women without previous experience and often with very rudimentary education, were virtually forced to conduct training groups or classes in which to show these new employees how to do their routine work. When duties crowded still more heavily upon the superintendents, they eventually began to

hire some one to give this instruction for them. Such was the origin of the retail store training director.

The training of older, experienced employees to secure higher efficiency has a quite different history. Such training had to wait until the fumbling study of salesmanship had reached some definite forms and conclusions. It was well past the opening of the twentieth century before retail store instruction began to be given to older employees. The wave of interest in vocational education for adults that began to gather in the period before 1910 helped the movement along. By 1910, the possibilities of public school training in retail selling began to be widely considered. As the years passed, the movement for retail education for employees, already experienced, gradually expanded.

In 1910, retailers almost feared to call training courses for experienced workers education. Such meetings were named conferences, conventions, and entertainments so as not to injure the dignity of grown, experienced people by suggesting that they go to school. Today this prejudice has largely passed away. Adults are glad to go to school to improve their knowledge and ability.

**A. The Beginnings of Training in Salesmanship.**—Back in the 1870's or early 1880's, certain publishing houses selling books on the subscription plan began to make a fine art of house-to-house selling or canvassing. By carefully analyzing the work to be done and by systematically teaching their canvassers the best ways of doing their work, these direct selling concerns made great successes. There may have been earlier schools of salesmanship than those conducted by the subscription book publishers, but no traces of them are evident. It seems that the distinctively modern teaching of salesmanship had its beginnings in the book canvassing business.

From book canvassing, salesmanship training spread to picture selling and patent medicine selling in the 1880's, and



from these to still other lines such as magazine subscription selling in the 1890's. By 1900, there were also many specialty manufacturing concerns giving their salesmen or canvassers training courses in salesmanship. The National Cash Register Company, a leader among sales organizations in use of progressive sales methods, began holding salesmen's meetings, much like schools, as early as 1891. On April 4, 1894, the first regular training school started with 37 men in attendance. Ten years later, in 1904, Hugh Chalmers, then general manager, said that out of the 1,081 men trained in this school up to that time, 63% had succeeded as company salesmen. In most concerns, at least up to that time, if one man out of ten made good the result was considered satisfactory.

Life insurance companies, aluminum goods manufacturers, electrical goods manufacturers, correspondence schools, nursery stock growers, piano and phonograph concerns, and office device manufacturers, have likewise been leaders in establishing training courses for their sales employees.

**The Literature of Salesmanship.**—Some mention of the early books for retail salespeople may not be out of place at this point. So far as the author has been able to learn, the first book written in the United States dealing with retail salesmanship was F. B. Goddard's "The Art of Selling," published in 1889. This book seems to have been written primarily for traveling salesmen, but does contain several sections on retail selling.

The first thorough effort in book form specifically for retail salesmen seems to have been George S. Cole's "The Art of Salesmanship, a Manual for Retail Dry Goods Salesmen," issued in 1895. Mr. Cole was also the author of "Cole's Encyclopedia of Dry Goods," which passed through several editions, the first appearing about 1890. It is safe to say that "Cole's Encyclopedia" has been a very great educational help to a great many dry goods salesmen in this country. "The

Art of Salesmanship" was a remarkably well-written volume, a worthy pioneer in this field, excelling many books that have since been written on the subject.

Barcus' "The Science of Selling" was a book issued in 1894, written mainly for canvassers but also including considerable matter for "traveling representatives and clerks." It is particularly interesting as a good example of the kind of training suggested for book canvassers back in the 1880's and early 1890's.

After 1895, the trade papers began to devote considerable space to salesmanship in their respective lines of business, and by 1900 floods of matter began to appear on the subject. In 1902, A. F. Sheldon started his famous correspondence course in salesmanship, and its almost instant success prompted the subsequent preparation of a number of other courses by retail stores as well as by individuals and companies.

By 1910, salesmanship was taught in Y. M. C. A. classes and business colleges, and more than a dozen books on the subject had been written and widely sold.

**Salesmanship Instruction in Retail Stores.**—The beginnings of systematic instruction in salesmanship in retail stores are hard to trace. Educational work of this character, among retail stores, even to this day, is sporadic. There is probably scarcely any retail organization of importance that has not at some time during the last twenty years conducted educational work in retail salesmanship, but it is difficult to find many stores that have consistently followed any program of salesmanship instruction over a period of several years.

**The First Store School.**—The first retail store school of which there is a definite record was established in John Wanamaker's store in Philadelphia, March 12, 1896, known as the John Wanamaker Commercial Institute, and later changed in name to "American University of Trade and Applied Commerce." Before that, there had been in the Wanamaker store



conferences, meetings conducted by buyers, lectures, and so on, just as there must have been in other stores. But here was the first real store school in America. Similar schools had already been established in the Bon Marché and other great French department stores. It is not impossible that John Wanamaker might have gained the idea of the value of more education for employees from M. Aristide Boucicaut, the founder of the Bon Marché.

The John Wanamaker Commercial Institute at first admitted only boys, but later it was opened to girls as well. The course of study at the start covered the subjects of reading, writing, spelling, arithmetic, grammar, bookkeeping, commercial correspondence, physical training, and singing. Later other subjects were added, such as elementary studies in merchandise, commercial geography, laboratory work, and so on. The purposes of this educational work seem to have been partly to serve as educational welfare work or philanthropy and partly to educate boys and girls whose early public school education had been deficient.

Similar lines of educational work were carried on in a number of the leading department stores of the country prior to 1910. This activity has, generally, declined and almost passed out. Training in the common branches, as we shall see, is now handled mainly by the public school system, particularly the continuation schools.

The educational departments established since 1900 or more particularly since 1910, have aimed generally to train new employees how to make out sales checks, to perform other store routine work required of them, and to inform them concerning store rules and policies. By 1910 there were many stores that had a training department responsible for this kind of training.

**Mrs. Lucinda W. Prince's Work.**—In the meantime there had been beginnings in store education of wider meaning.

In 1905, the Women's Educational and Industrial Union of Boston undertook an investigation of training needed by girls who wished to become saleswomen. Mrs. Lucinda W. Prince, a member of the committee, became so interested that she resolved to devote herself to it. She succeeded in getting the Union to provide a room and equipment, and the first class consisting of eight girls, none of whom were actually employed in retail stores, was opened in the fall of 1905. Another class followed in the early part of 1906. These early efforts were not encouraging. Retail store employment managers were slow in hiring the students of these classes. But in July, 1906, Wm. Filene's Sons Company volunteered to take Mrs. Prince's students for part time while attending her classes. Later, Jordan Marsh Co., Gilchrist Co., Shephard Norwell Co., and C. F. Hovey Co., became interested and also agreed to take students on part-time during a course of twelve weeks' instruction, the instruction coming in the forenoons and store work in the afternoons. Under an arrangement then concluded with the stores, some of the students were also selected for training by the store superintendents from salespeople already employed.

The work proved successful. Gradually, large stores in various parts of the country became interested. Mrs. Prince's graduates were called upon to become store instructors. Naturally the next step was the establishment of a teachers' training course. This was definitely effected in 1912. In the following year the course prepared by Mrs. Prince was taken over by Simmons College of Boston which now administers the "Training Course for Teachers of Retail Salesmanship."

In 1915, Mrs. Prince was appointed educational director for the National Retail Dry Goods Association, the trade organization for the dry goods and department stores. In this capacity she has worked to increase interest in department store education, supervised the work of store teachers employed by members, and, at the same time, urged the establishment of classes in retail selling in public schools.



By the end of 1927, more than 500 Prince School graduates were occupying positions as educational directors and assistants on personnel work in leading retail organizations throughout the country. Many of them were also filling positions as teachers of retail selling in the public schools. For many years the Prince School, as a part of Simmons College, has given a one-year course training students to become teachers in retail store educational departments. Most of the students of this course have been college graduates and those completing this course are granted a post-graduate degree by Simmons College.

Students taking this course give approximately one-half of their time to actual practice teaching and to observing the teaching of saleswomen at the school, and the remainder of the time in investigating and studying retail store work in Boston department stores. The students also devote one day a week to actual selling and during the interval between Thanksgiving and Christmas the classes at the school are suspended and all students take positions as saleswomen in retail stores.

The course of instruction for beginning students includes retail selling, merchandise study covering textiles and non-textiles, study of color, line, and design, retail store arithmetic, psychology of selling, English for saleswomen, and personal hygiene.

The advanced training course for teachers of retail selling includes, in addition to the subjects taken up in the more elementary course, educational psychology and educational theory and practice. Store study is used to develop a knowledge of efficient store management. Practical observation and work is supplemented by wide readings and written reports.

**Diana Hirschler's Work.**—Another woman who had an important share in the early development of interest in teaching retail salesmanship was Miss Diana Hirschler. Mrs. Prince

came to the work of training salespeople with the point of view of the social worker, teacher, and club woman. Miss Hirschler made her approach from the standpoint of a director of welfare work. In 1905, she was in charge of the welfare department of Wm. Filene's Sons Company in Boston. The city of Boston seems to have been alive with interest in the possibilities of salesmanship instruction at this time. During the winter of 1905, the Boston Board of Education authorized an evening class held in the Bigelow School, South Boston, at the request of both wholesale houses and retail stores. Over 150 men and women attended. The instruction was given in the form of a series of talks by leading store executives, among whom was Diana Hirschler.

In 1908, Miss Hirschler was appointed to teach a night high school course in salesmanship established in New York. In the meantime in 1906 and for some years following, Miss Hirschler traveled over the country visiting several of the larger stores, giving lectures and urging beginnings in the teaching of retail selling. Her proposals generally involved the efforts to secure systematic instructions administered by the buyers and store superintendents. For a considerable time, Miss Hirschler conducted a correspondence course showing store executives how to carry on such instruction. In 1909, Miss Hirschler published a book, "The Art of Retail Selling," one of the earliest, if not the first, of books dealing with the subject of retail selling.

**The Department Store Education Association.**—During 1914, several prominent New York people who had become interested in the training of retail salespeople formed the Department Store Education Association whose objects were as follows:

1. To study at first hand the methods and conditions of department store employment.



2. To develop salesmanship to the status of a skilled occupation and give it a professional standard.

Shortly after this association was organized, the services of Miss Beulah E. Kennard as educational director were obtained. Miss Kennard began her work by studying all educational methods in use in retail stores, and as a result of her studies brought together a suitable course of instruction for use in stores and public schools.

Educational work was established in some of the New York and Brooklyn department stores under the direction of Miss Kennard. Later a Department Store Educational Council was formed to cooperate with the City Board of Education to carry out an educational plan for retail employees. This has since been developed and carried out to a large extent through high schools, evening schools, and continuation schools. The courses of study outlined were more thorough, as well as broader, than anything attempted up to that time in the public school system.

**New York University School of Retailing.**—Somewhat later a training course for teachers was established in New York University with Miss Kennard in charge. All this in turn led to the establishment of a separate division known as the New York University School of Retailing with a broad course of study covering many branches dealing with retailing and leading to a regular university degree.

Beginning with the fall term of 1919, New York University established a new two-year course for the training of teachers of retail selling, under the directorship of Dr. Lee Galloway, for many years a leader in promoting business education. Later this work was made a part of the New York University School of Retailing which, in turn, was established as a separate college coordinate with other professional divisions of the University. Professor Norris A. Brisco, formerly of the University of Iowa, was made Dean of this school.

**University "Merchants' Courses."**—While the Prince, Hirschler, and Kennard educational movements were being developed in the East, beginnings were made in the training of salespeople in the Middle West through University Extension Courses, merchants' short courses, and high school courses. In 1910, the University Extension Division of the University of Wisconsin established an extension course under the direction of the writer, conducted both as an evening class and by correspondence, for retailers and retail salespeople. These courses soon became very popular. Several thousands of retailers and salespeople pursued them. Other universities, notably Kansas, Iowa, Minnesota, Washington, and Oklahoma, later adopted similar courses.

**Progress at Other Universities.**—Another university movement for the study of retailing began in 1913 in the "merchants' short courses." Both the Universities of Minnesota and Kansas held such courses that year. Later the Universities of Iowa, Illinois, and Oklahoma established similar courses. The merchants' short courses were modeled in some respects after the agricultural short courses for farmers that are held annually in most agricultural colleges the country over. The students in attendance were men and women actually engaged in business. The subjects included the most practical presentations possible, in most cases by experts in merchandising rather than by academic instructors. The merchants' short courses proved highly popular, but were largely discontinued during the war.

The object of the work of the universities has been to encourage interest in the systematic study of retailing and to point out the need and the methods of teaching retail salespeople. As a result of the agitation of the universities, as well as from other causes, retail salesmanship was introduced into several high schools, beginning in the Middle West in



Oshkosh, Wisconsin, in 1910, in Boston in 1912, in Duluth, Minneapolis, and Detroit in 1913.

**Continuation and Public School Courses in Retailing.**—The continuation and part-time school movement which began during the period from 1913 to 1914 and which has since 1917 been widely extended by the support and encouragement given by the Federal Government through what has been known as the Smith-Hughes vocational education law, now constitutes the main channel of education for retail salespeople. The Smith-Hughes act cooperates with states by making financial contributions for vocational education provided the states meet certain conditions. Every state in the Union has accepted these provisions, and vocational training for salespeople in retail stores is a part of this vocational education program in most of the states. There are now scores of cities in which retail store training is provided in this way as a part of the public system of education.

**The Research Bureau for Retail Training, University of Pittsburgh.**—The Research Bureau for Retail Training was established at the Carnegie Institute of Technology, Pittsburgh, in May, 1918, and later made a part of the University of Pittsburgh. It has made distinctive contributions to retail store education not only in training salespeople for Pittsburgh stores but also in the training of teachers for retail stores. One of the most valuable services has been the careful studies carried on by the students and by members of its staff and the publication of these in textbook form for general use. Money for its establishment and maintenance was contributed by members of the Pittsburgh Retail Merchants Association. In recent years its support has been broadened by contributions from other sections.

The purposes of the Bureau are as follows:

1. To give professional training to those desiring to enter the field of retailing.

2. To train special teachers and supervisors in retailing.
3. To conduct investigations for the improvement of methods of selling and training and supervising of retail store employees.

**Training and Retail Selling in Other Institutions.**—The need and the place for training in retail salesmanship has been recognized by the National Education Association, by state superintendents and by state boards of education, by trade education organizations, by the U. S. Commissioner of Education, and by the Federal Board for Vocational Education. Private schools, business colleges, Y. M. C. A., and other similar institutions have also taken up retail selling as a branch of instruction. It is hard to mention any type of educational institution dealing with commercial subjects that is not now in some way working in this field.

**B. Limitations of Retail Store Training.**—There is an ancient debate, never quite settled, as to which is more important to the success of an individual, inheritance or environment. Similarly, the real value of training for retail store work has never been quite settled. There are those who believe that retailing success is dependent upon inherent qualities, while others are equally sure that experience and training are of more importance than any inherent capabilities or tendencies for this kind of work. It seems certain, however, that under the complicated conditions of modern retail business, while innate predilection may be important, such innate tendencies require the support of comprehensive experience and of education to function properly.

Training for retail store work, as we have seen, has had an interesting but also a somewhat checkered development. While the training idea has spread widely, it does not appear that in point of actual results it has fully justified the enthusiastic faith of its early proponents.



There are some branches of retail training, as we shall see, that have proved entirely successful, while others are still in real doubt.

**Retail Store Training Problems.**—In the cut-and-try methods of education which have been followed during the past twenty years, many approaches have been made to meet the educational needs of retail employees. Some of the factors that have had important effects will now be traced.

1. Store Occupations. There are more than 200 different kinds of work carried on in modern department stores and in this tabulation all salespeople are considered as belonging to but one occupation. Clearly the requirements of selling in various lines as well as in various stores are very different. If one were to add the varieties of selling to the other occupations found in a retail store, it would probably be found that there are nearly 500 different kinds of work for which specific forms of training might be devised in the retail field. What training to give to retail employees is, consequently, highly complicated at the start.

2. Improvement in Employment Methods. The problem of retail store training has been given a quite definite direction by the improvement of employment methods. The better the work done by the employment department, it has been found, the less the immediate need for training. This does not mean that scientific employment takes the place of training; both are necessary, but without scientific employment a retail store must of necessity be more dependent upon its training program for efficiency of its employees than with careful employment procedure.

3. Standardization of Retail Store Jobs. The standardization of methods of operation resulting from job analysis and definite job specification have also had the effect of giv-

ing specific work for the retail training departments to do. The whole tendency of standardization, as applied to retailing is, as a humorous, cynical retail executive has expressed it, "To make retail store work safe for stupidity." Standardization has resulted in the simplification of the work, on the one hand, and of the problem of training of workers on the other. Many retail stores have long been placing an increasing dependence upon their research and planning departments, and a decreasing faith in their rank and file of employees. Functions have been defined and duties enumerated for practically every type of work done in retail stores. Employees have been asked to follow instructions, with the result that training programs have more and more been confined to teaching routine detail processes that have been carefully and definitely standardized.

4. Limited Differences Between Best and Poorest Retail Salespeople. Another and more serious problem faced by retail store training is the limited range of possibilities of increasing the efficiency of the rank and file of store employees. One of the most effective methods of practical education is to determine what is being done and how it is being done by the most proficient workers, and then use this information as a basis for the instruction of the beginners, and the poorer workers. Applying this method of training usually brings up the efficiency of the beginners and of poorer workers to a very marked degree.

In selling in retail stores the differences in selling ability, as measured by actual sales, between the very best salespeople and the poorest or those who have just enough ability to help them maintain their positions, is not great. The sales of the best are rarely more than twice as high as the sales of the poorest, and the average difference is often less than 50%. What percentage of gain in efficiency can be hoped for from any process of training applied to the poorer salespeople and



to new employees? What are the specific reasons for the individual differences in selling efficiency? Can general sales efficiency be increased as much as 25% or even 10%? How much can a retail store afford to pay in training cost for building up a 25% or a 10% increase in efficiency? These are important questions for which satisfactory answers have not yet been satisfactorily worked out in most retail businesses.

As a matter of fact, beyond instruction and training in the elements or rudiments of retailing such as required by new employees, despite a great many experiments, some of long standing, by and large, retail training courses have not had outstanding results. While there is, undoubtedly, some value in all kinds of educational effort, there appear to be no conclusive proofs that instruction beyond the rudiments of retailing has been productive of real increases in efficiency.

Attempts that have been made to apply measures to the results of training in retail store work have usually turned out doubtful, if not negative results.

In 1927 and 1928, such efforts were made by the Personnel Group of the National Retail Dry Goods Association. At the meeting of the National Retail Dry Goods Association held on February 7, 1929, a report was made of an effort to measure the effects of special retail training for retail salespeople by Miss Natalie Kneeland of the Research Bureau for Retail Training of the University of Pittsburgh. Controlled experiments had been conducted through the latter part of 1928 in six different department stores to test the value in actual results of a program of special training in retail selling. In each case, one or more groups of salespeople were given intensive training, while similar groups made up of salespeople similarly situated were permitted to go on with their work without any training. The disappointing conclusion was reached that those salespeople who were not given the special training made as good a showing in sales as those did who were given the training. It should be carefully noted, how-

ever, that the experiments were limited in number of people included and also by the fact that different methods of instruction were used in each of the six stores. A more comprehensive study including a greater number of people and with better conditions of control to insure equality of selling opportunities and more uniform subject matter and methods of instruction might possibly have produced more positive results.

Whatever may be said as to the shortcomings of the test just reported as well as of other studies made in this field, it seems clear that retail training offers no easy method of accomplishing great improvements. Miss Kneeland advanced the opinion in connection with her report that there is undoubtedly a law of diminishing returns in the application of training to retail salespeople. Added increments of training do not bring about proportional amounts of improvement in ability. Miss Kneeland also expressed the view that the results made may have been negative for the reason that training requires an interval of time for assimilation before improvement takes effect.

The possibilities of training have been given serious and even enthusiastic consideration by scores of leading retail merchants all over the country, many of whom after several years of experimentation have cooled off and in a few cases have lost interest.

**Value of Training for New Employees Amply Demonstrated.**—Systems of retail training have amply proved their necessity and value in the preparation of new employees for their work, but beyond such elementary courses, opinion still varies. There are many retail store managers who place great faith in the possibilities of training as a basis of individual improvement, and in particular as a part of preparation for executive work. There are also retail executives who place a great deal of stress on the value of training as a means of helping employees in their present work. The majority of



retail stores, however, both large and small, spend real money for training new employees only.

It is not to be assumed for a moment that failures to find positive results from past systems of training in retail stores prove that no training is possible. It simply proves that the experiments made to date, or at least those that have been reported, have been defective. Certainly, if it can be assumed that human beings can be improved in other lines of work, then such improvement can be made in retail selling. Instead of hopeless acceptance of past results, this recital should challenge retailers, personnel directors, and educational directors to make new efforts and to discover what can be done and how.

**C. Aims of Retail Store Training.**—The aims of formal retail training are as follows:

1. To secure greater personal productiveness.

2. To reduce the costs of operation per unit of work, sales, or product. Formal retail training, to justify itself, must accomplish both of these purposes. There must be increased efficiency at lower costs to make the establishment of training worth while.

3. In order to secure these results another element is necessary, namely, the desire on the part of the employee to cooperate. In order to insure this desire there must be adequate incentives. There must, therefore, be a definite possibility of increased earnings if the training is to take effect. There must also be definite measurements and records indicating the results of training in actual units of accomplishments. These points are as necessary from the standpoint of the employee as for the employer.

Salaries and wages were discussed in the preceding chapter. In the treatment of training in this chapter, the first two conditions must be assumed as fundamental. The fourth condition is a necessary element to make sure that the first two are accomplished. Every training program should include definite

provisions for check-up and measurement. Every training director should fight for this, if for no other reason, as a precaution for self-preservation.

**D. Who Should Be Trained.**—There are at least four large, well-defined fields of training in retail stores, each of which requires separate, special consideration. These three general groups are as follows:

1. New employees—inexperienced
2. New employees—experienced
3. Experienced employees in service
4. Employees preparing for promotion and executive work

**1. New Employees—Inexperienced.**—A large part of the work of most training departments in retail stores is, as we have seen, given to the training of new and inexperienced employees. By effective processes of training such as have been devised and standardized, the learning period for such employees can be and has been very materially reduced. What formerly required weeks now has been reduced to as many days. Such training is not only highly useful in fitting the new employee to begin productive work in a short time, but also in reducing the losses that are due to the common errors of new employees. There are a number of such specific errors to which new employees are subject, and specific training undertaken to correct them and to prevent such losses has proved very successful. Finally, an adequate introductory training program helps to introduce new employees to the work of the store, and in a sense to tide new employees over what is usually a period of considerable inferiority feeling and discouragement.

Retail training for new and inexperienced employees has amply proved its value. A retail store that does not take advantage of the methods and processes that have generally been found useful in starting new employees in their work in



an efficient way must pay a heavy penalty in lost sales and higher expenses.

**Subjects To Be Taught New Employees.**—Among the subjects that may be taught to new employees much more readily by training methods than by the more old-fashioned plan of expecting them to pick up this information by questioning and by observation are the following:

a. *General store rules* and policies with which the employee should be acquainted in order properly to serve the store in its relation to the public. A statement of these store rules and policies in writing prepared in the form of a manual which may be placed in the hands of the new employee with suitable instructions on how to study it, is probably the best means of teaching these points. The manual may very properly be supplemented by a preliminary talk given by some representative of the store on this subject.

b. *Store system,* including detailed methods of making out sales checks and other records, methods of operation of cash registers, scales, measuring devices, and other selling equipment, may be best taught by formal demonstration followed by tests of the new employee's observation and understanding. Demonstration and talks about store system may also be supplemented very profitably by individual study properly supervised of a written or printed manual of concise instructions, including forms filled out in such a way as to illustrate the store's system.

c. A knowledge of the *store's organization,* that is, a "who's who" among the executives and heads of departments is a helpful thing to new employees, not only of large stores but of moderate-sized stores as well. This information can best be conveyed by means of a short lecture supplemented by charts or diagrams.

d. *Information about the store,* including the kinds of goods handled, the locations of its various merchandise and

service departments, is something that employees are frequently called upon to use. Customers make inquiries in one department for goods that are to be had in others, and it is always desirable that such information should be given as promptly and as accurately as possible. One of the best methods of giving a general idea of the location of departments within a store is by means of store trips to be taken by new employees under the supervision of some one capable of pointing out not only the various departments but also the significant details about each department as well. The information obtained in the store trip is supplemented in many stores by a typewritten or printed directory listing the various departments, the kinds of goods carried in each and their locations. After an opportunity has been given to make the store trip and to study the directory, many retail stores find it advantageous to conduct tests of the knowledge of the employees on where various classes of goods may be found. In some cases these tests are made as contests. Considerable rivalry may be induced to see what employees are best able to designate accurately the proper places to look for selected lists of goods.

e. *Store etiquette,* or proper personal conduct to customers of the store as well as to other employees, is a highly important though elementary form of instruction needed in modern retailing. This may best be taught by a lecture made interesting by illustrations or demonstrations showing right and wrong methods of conduct and then supplemented by a manual which may be studied at leisure and in more detail after the lecture is completed.

f. *Elementary salesmanship* in a retail store is closely related to store etiquette but, in addition to proper forms of conduct, consists of methods of approaching customers, how to introduce merchandise, how to display goods and bring out their desirable points, and how to close the sale. This information which, without training, sometimes takes months to acquire, can be taught in a very short time by means of



lectures and demonstrations, again supplemented by a manual for individual study.

g. *Elementary subjects* such as writing, spelling, and arithmetic were formerly important parts of the training for many of the new and inexperienced retail store employees. Such employees frequently came to work at an age before they had completed their common school education and in other cases the common school education may have been so deficient in these subjects as to make supplementary instruction in the store necessary. In recent years, since the general establishment of continuation schools, the burden of responsibility for education in the common elementary branches has been largely transferred from the retail stores to the public school system. There is probably, likewise, less necessity for emphasis on these subjects than formerly, due to the fact that older people are employed and the average education has been considerably increased. There are, however, many cases in which elementary subject instructions are still necessary, particularly to secure the skill in writing, spelling, and computation needed by a retail store. Such specialized instruction obviously can best be given by class work under a competent instructor and with the use of textbooks specially prepared, if possible.

h. *Local geography* is an important study for new employees going into large retail stores having sales over a wide territory. This study usually includes a knowledge of subdivisions, streets and apartment houses of the city and its adjoining territory. It also includes information on boundary lines of delivery zones if there are such. No method has been discovered to convey the knowledge of local geography so quickly and so thoroughly as the use of maps and old-fashioned class work.

i. *A general knowledge of merchandise,* its nature, the raw materials used, and methods of production, is exceedingly useful for new employees who are to go into sales positions. This kind of information can scarcely be conveyed in any other way

except by formal training, the use of textbooks or manuals, class instruction, and accompanied by tests or quizzes. Courses in textiles, in leather, woods, metals, food production, and other materials are usually included under this heading.

j. A knowledge of *applied art,* of elementary design, the principles of line and color in order to secure harmony, and the changing trends of popular taste in relation to artistic production, is another subject of great importance to retail store employees, particularly those who are to sell goods in which art is a factor. Such subjects as applied art and fashion may also be best taught by means of class work, textbooks, outside readings, and recitation methods.

k. *Error correction.* Retail stores that maintain records of errors made, their frequency and causes, have as a result specific indications of concrete educational needs. A study of error statistics may show the need for instruction in penmanship, in spelling, in arithmetic, in local geography, in store policies, or what not. Education applied to specific purposes such as indicated by the prevalence of errors may be used not only to reduce the number of errors made but to take precautions against future errors which the store may know from past experience are likely to be made by new employees. Error correction may be best taught either by class or individual instruction. There are some types of errors such as frequently occur among salespeople which may be most economically corrected by class methods; others call for individual interviews; in either case a written or printed manual, covering all ordinary cases of causes of errors and how they may be obviated, is an important aid in this educational work.

l. *Job specifications.* Stores that have taken the very modern step of preparing written job specifications for positions to be filled by new employees have by that means created educational material of the greatest value. A job specification sheet outlining the work to be done, how it is to be done, and the measures of its success, is usually given to the employee upon entering service. At the time it is handed to the employee it is fully explained and questions are invited on any part that is not clear. The new employee, in the course of a few days, is usually asked to repeat the contents of the job specification, and the periodical follow-up that should be made of every employee in every well-regulated store is thenceforth based on the performance by the employee on each of the items named in the specification.



**2. New Employees—Experienced.**—When a store employs people who have had store experience elsewhere, some of the means for instruction enumerated above may be eliminated or at least shortened. A condensed training based on the twelve points or subjects enumerated for new, inexperienced employees is probably the best possible preliminary training for experienced employees, newly employed, as well.

**3. Experienced Employees in the Store.**—The training of the employee who has already had considerable store experience cannot so easily be definitely outlined. In most stores, for the reasons already given, such training, where attempted at all, is given by the head of the department in which the employee works. The head of the department may, of course, delegate the actual work of training new employees to the training department. In some subjects the training of experienced employees is also usually delegated to others. The final responsibility, however, for training and developing employees on the job rests with the department heads under whom they work. While there is still some uncertainty as to the best forms of training for experienced employees, and while effective measures have not yet been devised to prove what is worth while and what is not, there is, nevertheless, fairly general agreement that employees in store service need training to meet changes in policies or methods, to prepare for special sales, and to keep in touch with new developments in mer-

chandise and consumer demand. The forms of such training may be as follows:

a. *Merchandise.* Attention has already been called to the value of training in merchandise for new employees. Sales employees who work with merchandise all day long, may, in spite of that fact, be greatly benefited by courses of instruction going into technical detail about such goods. Such courses may be either general courses dealing with certain fields, such as textile, wood, leather or metal products, or they may be specific courses going into detail information about methods of construction, qualities, and so forth, of the particular items carried in the store. The use of such tools of education as textbooks, charts, lantern slides, movie films, exhibits, maps, and other forms of demonstration, are exceedingly helpful in this form of training.

b. *Consumer demand.* Retail store employees can scarcely be educated in any subject of greater importance to themselves and to their stores than in specific understanding of the problems of consumer demand, the methods of finding out what people want, and how to satisfy these wants. Education in consumer demand involves learning the principles of family budgeting, of applied art, of good taste, and of the economics of fashion. At the present time the knowledge of these subjects among most department heads and other retail executives is so meager and hazy that it may be imperative to have instruction, if it be given at all, by formal class methods, including the use of textbooks and recitation methods.

c. *Salesmanship* is a matter upon which instruction may always be timely if well-conducted. Employees may be trained in specific methods of selling the kinds of goods in which they are employed, in suggestive selling, in utilizing new promotion ideas, and so on.

d. *Error correction* is or should be a continuous training function in every retail store. The records of errors and the reports of service shopping should furnish the subject matter



for instruction. Such instruction and training in the correction of errors may be conducted either by the heads of departments or by training directors. In large stores it is usually delegated to the training departments.

e. *Training to induce greater effort and enthusiasm* is a function of every executive in charge of employees. It may be made a matter of special attention in any given department under the direction of its department head, and, if there is a training director, with the aid of the training department.

f. *New developments in merchandise or in methods of selling* are matters for education and training of employees in service. The sales points of new goods need to be demonstrated to salespeople so that they in turn may demonstrate them to customers. Some retail garment stores place so high a value upon this form of training that they almost invariably conduct style shows for salespeople to show the new garments on models just as they are to be worn by consumers, and to demonstrate the current ensembles by showing complete outfits whether in apparel or home furnishings. Similarly, new fashion developments are subjects for a training program in order to inform the employees so as to secure their efficient operation in relation to such developments.

g. *Slow-selling goods, etc.* Training of employees in service is also needed to carry on programs of special sales effort to get rid of slow-selling goods, to secure the fullest cooperation on stock control systems, to obtain proper information on consumers' calls for goods not in stock, and other points of merchandising value.

**4. Employees Preparing for Promotion and Executive Work.**—In every retail store there are or should be ambitious employees desiring promotion and to whom the store itself should look for future executives. There is no more tragic page in the history of most retail institutions in this country than the utter lack of pains taken to promote from within the

store to executive positions when they occur. When such openings have occurred, they have generally been filled by the employment of executives from other concerns. Training for executive positions, up to the present time, has generally been obtained by changing employers and working in new positions until sufficient experience and outlook have been obtained to qualify for executive work. Happily this condition is changing even if but slowly.

Obviously, there is need in every store for direct plans to develop executive material from within, and to make it unnecessary to seek help from outside whenever an important opening occurs. Forward-looking employers go even farther. When employing new help, they seek to obtain a certain proportion of persons who apparently have the necessary native ability and preliminary education to fit them, in due course, for executive work.

The training to be given to employees preparing for promotion and executive work must of necessity be broader and more comprehensive than the training given to new employees or to employees in service. From one standpoint, the training of employees for promotion is a training in teaching and in leading other employees. Modern analysis of the essentials for executive work or leadership of others involves points such as the following:

1. Ability to size up people and to fit them into the positions where the best results can be obtained.
2. Ability to teach. Executive work is largely a matter of teaching and training.
3. Fairness in judging the work of employees and in adjusting the difficulties that may arise.
4. Ability to delegate work to others and to supervise so as to secure efficient results.
5. Ability to secure and to use the suggestions made by others.



6. Ability to comprehend the work of the department or of the institution as a whole and to coordinate the various activities of that department or institution.
7. Ability to establish, maintain, and use records.
8. Ability to obtain proper discipline and conduct from others by favorable personal example.

With the foregoing requisites of leadership in view, the training of employees for promotion and executive work takes its form accordingly. The following outline of executive training is substantially the same as that pursued in some of the leading retail institutions of the country in which executive training is carried on.

1. An intensive study of all branches of retail store work beginning with the organization and its functions, the flow of work, of merchandise, and of records through the organization, standards of efficiency, expenses, and expense control, and methods of meeting the various problems of each division.

2. Executive training in some stores sometimes centers around certain developmental activities in which the store may, at the time, be interested, such as the formulation of job specifications, the establishment of stock control, the analysis of expenses, the study of consumer demand and trends of fashion.

3. Broad training for executive work in the retail business demands a good fundamental knowledge in such sciences as economics, psychology, sociology, and statistics. In a few instances entire groups of retail store employees have been organized as student clubs or classes to carry on formal education in these lines.

Another important subject similarly handled and occasionally taken up is public speaking. Its value to the individual who is to become an executive is very great.

Training for promotion and executive work may be carried on in a formal, organized way as indicated above, particularly in large institutions in which there are many employees and in which there are a sufficient number who may form a

student club or class. In smaller stores and in other institutions without such formal plans for executive training, the individuals preparing for executive work may be encouraged to carry on their studies by means of suggestions and assigned readings in books and magazines, by means of extension classes or correspondence courses. The opportunities for education in general subjects needed by employees who desire to become broad, efficient executives are now excellent and within the reach of every retail store employee. It only remains to the store heads to point out to interested individuals what these opportunities are and how they may be utilized.

**E. Methods of Training: 1. Sink or Swim Method.**—The most primitive as well as the most elementary method of training as applied to a new and inexperienced employee is to place him in a department and let him pick up the information that he needs informally by watching and listening to others who are performing the work which he is to learn to do. That this method is the least efficient, the most wasteful, and most expensive will be denied by very few. To place a new and inexperienced employee in any position without more training than can be secured by this method is nothing short of an economic crime.

**2. Demonstration Method.**—Training by demonstration and example is a long step forward. The new employee, under this method, is asked to observe while some one who is skilled and experienced performs the necessary operations. After the new employee has been shown he is then asked to attempt the same process while the experienced person who acts as the instructor looks on, makes suggestions and criticisms, until the employee has learned how. Thereafter the new employee continues to do the work, with close supervision at the start, but with diminishing watchfulness as the new employee improves. This is an efficient method of training where a specific process is involved. It is the ideal way in which to teach how



to wrap a parcel. It, however, usually carries with it very little background of knowledge or of reasons why. To secure this broader phase of training there are needed the job specifications, the manuals or handbooks, the class teaching, and outside readings.

**3. Class Teaching and Miscellaneous Methods.**—For example, in retail selling the new employees may learn something of the art of handling customers by observation, by demonstration, and by working under supervision of experienced competent supervisors. The necessary background of information required by a retail salesperson on merchandise and even on salesmanship may be learned from personal talks, from classroom instruction, from study of manuals or handbooks, or from movies or drama. All of these methods are valuable when supplemented by recitations and examinations, and by training in methods of analysis showing the employees how to determine the reasons for success or failure for themselves. The knack of such analysis is the best ability conferred by any type of education.

Use of Movies. During recent years there has been great progress made in retail store education by the development of moving picture films presenting with scientific accuracy of detail in the most easy and at the same time the most comprehensive fashion, the essential facts and principles of such subjects as store etiquette, salesmanship, merchandise, applied art, and fashion. The larger retail stores can scarcely afford to neglect this means of education, and smaller stores should find the means through their associations by which their employees could secure the benefits of these helpful materials.

**F. Who Shall Train Store Employees?: Training is an Essential Feature of Executive Work.**—Despite the discouraging aspects of advanced formal training as a means of improvement of the rank and file of retail store employees on

the job, it is necessary that all should be kept up to a high pitch of efficiency. This is partly a matter of supervision, partly of discipline, and, in a very real sense, of training. The function of executives in the retail business as well as in all other businesses is to keep the organization at a high operating level by means of effective supervision and training.

Whatever may be done in retail stores to establish formal training cannot be considered as, in any sense, taking the place of the executive training function. A proper concept of the work of the training department is that it supplements and assists executives in carrying out their responsibilities to their employees. It assists executives to perform their work more effectively.

The training function is a part of the work of every executive in a retail store who has charge of other employees from the president or general manager down to the buyer, sponsor, or coach responsible for but a single assistant. One of the most important measures of executive work as well as one of the best indications of future executive capacity is the demonstration of ability to train others, to get them to apply themselves intelligently and forcefully at their duties.

The processes of all executive direction of employees include:

1. To tell employees what is to be done.
2. To show them how to do it.
3. To inspire deep and continuous effort by encouragement and constructive criticisms, by driving or leading.
4. To supervise work to make sure that it is properly done.
5. To check results frequently.

All of the foregoing are either directly or closely related to the training function. The executive who performs these functions properly, whether he thinks of it in this sense or not, is a teacher. The best executives are always good teachers. Applying the training test to executives, it may be asserted



that if employees do not make gains in working efficiency with each added year of experience under an executive, that executive has failed in an important obligation to his employees as well as to his concern.

In all discussions of the place of training in the retail store it should never be forgotten that the responsibility for training rests with the head executives of that store and that this responsibility cannot be shifted. Even the appointment of a training director or teacher does not affect this principle. The training director is always an assistant to the executive, aiding in specialized ways to secure better results. The merchandise manager, for example, may need the help of a professional trainer for the salespeople of his departments as much as he needs the professional advertising writer, or the professional accountant. The purpose of the training or educational director is merely to help get higher production than could be obtained without such aid.

In every retail store in which there are employees there is a problem of training. If the store wishes to succeed, and if it is to perform its proper function in its community, it must meet this problem in some effective way.

**Training in Small Stores.**—In the smaller stores there can be no question that the owners or managers must continue, as in the past, to carry on the training functions. In a store with four or five clerks, it may be possible to make one of them responsible for training. Something, no doubt, may be accomplished by small retail stores by cooperative effort in securing training for their employees either through the public school systems or through private courses or institutions. The difficulty with training in public schools and from outside institutions is that it must of necessity be more or less general, and the burden for specific training will still remain a problem for the owner-manager.

**Training in Medium-Sized Stores.**—Retail institutions in which there are from twenty up to a hundred employees and in which there is considerable division of labor, may be able to set up a more specialized organization to provide training for employees. In such stores the training function is usually carried on as a part-time duty by employees who are regularly employed in other kinds of work.

In stores too small to have a separate training department, but large enough to have division of labor, a single person may perform all of the functions of a personnel division, including hiring, supervising and training of the rank and file of employees. In one store of the writer's acquaintance, an assistant in the advertising department who has a special liking and considerable ability in educational work performs the training functions, and in another store the manager's secretary serves very capably as the training director as well.

**Training in Large Stores.**—In large stores with many employees there is not only an opportunity, but also the necessity for the creation of specialized means to aid in training employees.

Should retail store training in large stores be carried on by centralized training departments or in a decentralized way, that is, directly by the heads of departments for the employees under them? This is a question upon which there has been much dispute. There are both centralized and decentralized systems of training to be found in retail institutions in this country. There are strong arguments in favor of each type of organization of training.

As a consequence of differences of opinion as to the merits of centralized versus decentralized training and, indeed, as to whether there should be any specialized training at all, there are wide differences in the make-up of educational departments found in American department stores. There are department stores with sales volumes of $10,000,000 a year and



up which have training departments made up of from six to eight or even more very busily occupied teachers, whereas in other stores of similar size the training departments may consist of but one or two persons, or, as indicated above, there may be none at all. In the past twenty years, well-known department stores have oscillated from having no training departments, as such, at all, to large organizations of teachers and trainers and back again to slender or skeleton educational staffs. Training departments have in many cases been favorite targets for expense managers and economy administrations. Eliminating the training department, or at least most of its staff, has always looked as if it were a good day's work to the cold, financial mind, out to cut expenses. The effect on the store's sales, net profits, and goodwill during coming years, as a result of the elimination of training, is not quite so easily imagined.

**Practical Lines of Training Activity.**—There has been sufficient experience over a number of years to warrant certain conclusions as to the practical fields of specialized training activity in retail stores. There are still many points concerning which questions may be raised, but the following suggestions are, it is believed, well-grounded.

In a store that is large enough in point of sales volume and number of employees to afford the employment of a trainer or teacher, there is no longer any doubt as to the possibility of the right kind of person in this work being able to render the retail store services worth as much as or more than the salary paid for them.

Regardless of whether the store policy is to carry on its educational work in a centralized or decentralized way, a training director can be of value to the store. The general functions of the training director need to be definitely prescribed. In consultation with the executives of the store they should include:

1. To prepare the training program for the store.
2. To indicate the departments in which training activities should be carried on.
3. To outline what training shall be carried on.
4. To prepare the training material, instructions, and manuals to be used.
5. To be responsible for the direction of such training whether the teaching be done by the training director or by department heads, their assistants, floor managers, sponsors or coaches.

In a centralized training department, most of the teaching is, of course, actually carried on by the members of the staff of the department. If the instruction is decentralized, then the training department can still serve a very useful purpose by showing those who perform the actual training function how to teach, how to present their material, and how to check its effects.

It seems safe to conclude that the training of new employees and their preparation for beginning work can best be handled in a centralized training department. There is an open question as to whether the training of employees already in service may be best handled by a centralized training department or by the department heads under whom they are employed. It is probable that much of the specific information required to carry on the work of a particular department and suggestions for improving the sales or operating methods of employees may best be handled by department heads.

A training director may, however, be of great help to department heads who carry on their own training activities, by helping them to plan and organize their training programs, put the information that is to be conveyed into suitable form, and by helping to organize the employees of the department for purposes of training.

In some department stores a differentiation of training functions is made relating to employees in service. All training necessary to secure the proper performance of the department activities is made the responsibility of the department executives. All training activities necessary to acquaint employees on general store policies and system are very properly made the continuous responsibility of the centralized training department.



Most department stores employ floor managers whose duties vary considerably from one concern to another. Floor managers as a rule work directly under the store manager under whom the training department also comes. Floor managers, it has been found, may be made representatives of the training department for their respective sections of the store, and responsible for the training of individuals in salesmanship, in the correction of errors, in the use of the telephone, in store etiquette, and so on.

In a few stores training department assistants are stationed in various parts of the stores, each responsible for the efficiency of salespeople and other employees in certain departments. This type of organization of the training department, when cooperating closely with heads of departments, secures a high degree of supervision over employees and the utmost of training value.

**Training in Non-Selling Activities.**—Much of what has been said here on the subject of retail store training is applied specifically to retail salespeople. As pointed out elsewhere, there are large numbers of retail store employees who have nothing to do directly with selling. Non-selling retail store employees are as much in need of training consideration as are the salespeople, and because of the nature of the work they perform the training programs can often be made more definite and tangible than for salespeople. Some of the largest retail stores in the country that have definitely assured themselves of the value of retail training as a means of increasing efficiency, conduct training for such non-selling groups as telephone oper-

ators, delivery men, inspectors and wrappers, elevator operators, section managers, assistant buyers, adjustment bureau clerks, stockroom employees, office employees, and so on.

The processes of training for these various classes of retail store employees are largely the same in principle as for retail sales employees. Very intensive courses of instruction, including class work, demonstrations, observation, and experimental trials supplemented by study of written job specifications and manuals of instruction, constitute the means and educational material utilized. The object of such education is usually to secure more work with less people, to make the work easier to do, or to cut the costs, usually with the result of increasing the earnings of the employees and of making savings for the store.

**G. Costs of Retail Store Training Through Central Departments.**—The amount expended for training in American department stores varies enormously not only from store to store but also within the same institution from one year to another. This variation is in part due to differences in the amount of training carried on and in part to the way in which training programs are carried on in the store.

When the training function is carried on by a separate department, the costs of training may be more easily computed and will usually appear to be higher than when decentralized and carried on by department managers and their assistants. In decentralized systems, it is practically impossible to compile accurate statistics of the costs of training.

The expenses of operation of central retail training departments range from .04% to .12% of sales. The average expense runs about .08% of net sales. That is, a store with sales of about $10,000,000 per year expends about $8,000 per year for training, at least 80% to 85% of which is for salaries and the remainder for rental of space occupied by the training department and supplies used.



One of the questions that may fairly be asked about training in retail stores is whether the expenditure of on an average of less than .1% of net sales may be considered as a fair test of the faith of retail managers in training. If training is really important, is not this a very small amount to pay for it? If there are real possibilities of increasing efficiency through training, would not multiplying this average expense for training four or five times be the means of increasing the efficiency of employees in other directions so that the total expenses of the store might be cut down? No large-scale experiment of this character, so far as is known, has been tried. Nor is there evidence of any disposition on the part of retail managers to attempt such an experiment. However, if training offers a real prospect of improving the efficiency of the employees, if a thorough system of training can be devised which will increase the efficiency of employees or cut the general personnel costs even as much as 10%, then it would certainly be worth while for retail stores to expend .2%, .3% or even .5% of net sales on a training program to secure this effect. A comprehensive program of training thoroughly applied, costing perhaps three or four times as much as the typical department store now pays for this service, should at least result in increasing the employee efficiency of the store by 10%. The common faith in training needs a real test of this sort to determine its actual possibilities.

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# CHAPTER XIII

## MERCHANDISING

**Meaning of Merchandising.**—The definition of merchandising usually given in dictionaries is "to trade, to carry on commerce, to buy and sell." Though this is the general definition it conveys very little information as to what goes on back of the scenes to make the business of trading or of buying and selling profitable and successful.

Retail merchandising involves:

1. Accurate estimates of what will be wanted by the store's customers in kinds of goods, assortments, styles, and prices.
2. Purchases of such goods made as advantageously as possible so that a profit will result to the store when they are disposed of to customers.
3. The conservation of capital by limiting purchases to the quantities that may be successfully sold, and bring the best returns.
4. Effective sales promotion including advertising, display, and salesmanship to induce customers to purchase the goods bought for them.
5. Building a permanent clientele and a valuable goodwill.

From the foregoing it will be seen that good merchandising involves the proper selection of goods, effective bargaining in buying, profit-making management of the capital invested, aggressive sales promotion, and a development of satisfactory public service. Merchandising means providing customers with what they want, when they want it, at prices they are willing to pay, at a profit to the store.

Merchandising is the central factor in retailing. Every-

thing else hinges upon the success with which merchandising efforts are carried on. It is possible for a retail store to get along with a poor accounting system, an ineffective delivery department, or a credit department that functions very badly, providing the store's merchandising is excellent, but not so the other way around. No matter how good the accounting, the delivery, or the credit work in a retail store, without good merchandising the store is doomed to failure. Merchandising abilities are so essential to a retail store that all department heads and, in fact, all employees of the store, need to have them.

Effective retail merchandising in these days requires many things. There must be a proper plant and equipment, there must be sufficient capital to stock the goods that, it is believed, consumers will want and to carry charge account customers if the store has a credit sales policy. Record keeping is essential. Specialized ability is highly necessary to secure the most effective display and other forms of sales promotion. Finally, a high morale of salespeople and other employees is a necessary condition for the best results.

In addition to the foregoing aids to good merchandising, there is merchandising itself. Let us now turn our attention to some of the factors essentially a part of the merchandising function and consider how they operate and how the other functions of a retail store are made to fit in with them.

**Estimating Consumer Demand.**—The character and extent of consumer demand are dependent upon many conditions, the most important of these being the amount of income received, the size and composition of families, the education of the home-makers and the bread-winners, the habits and customs of consumption, and the influences of fashion. These factors have been analyzed in detail elsewhere and need not be discussed here.[1]

[1] P. H. Nystrom, Economic Principles of Consumption, and, Economics of Fashion. Ronald Press Company.



Estimates of the amount of incomes and their distribution within any community may usually be made by the use of such figures as are presented by the U. S. Bureau of the Census on wages and salaries in manufacturing industries, on agricultural production, and income tax returns. The number of Federal income-taxpayers is available only in larger communities. Other indexes of income that may be applied locally include real estate tax rolls, types of homes owned or rented, the use of telephones, gas, electric light, and other equipment, automobile ownership, magazines and other periodicals taken, and so on.

From the total estimates of incomes and their distribution, estimates may, with a fair degree of accuracy, be drawn up indicating the average consumption and expenditures for the main classes of commodities. For such methods of analysis of consumer demand the reader is referred to the author's "Economic Principles of Consumption."

The specific character and trends of consumer demand for particular commodities must be determined in more detailed ways. To find out what particular kinds of hats, gloves, or furniture consumers are buying at a particular time may be determined by such methods as the following: the store's own sales records, if properly kept and in sufficient detail, will show what is selling and what is not selling. Within the limits of opportunities offered by the store's own stocks this may be taken as an elementary indication of the direction of consumer demand. It is possible to supplement this information on what is selling well within the store by shopping competitors' stores to determine what classes of goods are attracting attention and selling well there.

A further means of aiding the store in determining the direction of consumer demand is by a thoroughly operated system of want slips. Many stores make ineffectual attempts to gather information through their salespeople on merchandise called for by customers but not carried by the store.

There are many difficulties in operating a want slip system. Even where want slips are carefully and conscientiously compiled it is easy to overestimate their importance and to be led mistakenly into the purchase of goods asked for only to find that such wants are very limited.

A want slip system is, however, an essential part of a comprehensive method of determining the nature and trends of consumer demand. A want slip is merely a blank form used by retail salespeople to report calls for goods not carried. These reports conscientiously filled out and turned in each day are used as a basis to supplement other sources of information on what consumers want and the directions taken by consumer wants.

Another helpful means of getting a line on the trends of consumers' wants is by securing reports on what is selling in other towns, preferably in larger cities or centers that set the pace of consumption. Quite naturally a great many things purchased and consumed by people of wealth and fashion in the fashion centers of the world never spread to the smaller places. The use of such goods constitutes the style experiments of wealthy consumers. Occasionally, however, an experiment in a style is followed by a vogue or fashion that spreads over the country. Reports on what consumers are using from fashion centers, particularly if they stress what are purely experiments and what are beginning fashions, may be very helpful to retail stores in the predetermination of consumer demand. The distinctions between style and fashion, here made, have been elaborated in detail in the author's "Economics of Fashion."

It is possible through such means as those described above to determine with a high degree of accuracy what the consumer demands are at any given time and by means of successive, periodical observations to determine the direction of the trends of consumer demand. It is clearly one of the most important functions of merchandising to make measurements and tests of



consumer demand and to carry on a continuous study of the trends of consumer wants that may be translated into the sales and merchandise plans of the store.

**Planning Merchandise Stocks to Meet Consumer Demand.**—Retail sales are not accidental. Consumers buy such goods as they want and stores effect sales by having the goods that people desire. It is not a part of merchandising to try to sell goods to consumers that they do not need. That such selling sometimes takes place may be admitted, but this is not the way in which retail trade is developed in any important way. A retail business grows through having the right goods at the right prices with the right promotion. The goodwill of a retail store is important but it does not take the place of the right goods or of proper promotion. Goodwill, where it exists, merely makes sales promotion easier.

**The Sales Plan.**—The beginning of a merchandising plan is an estimate based on an analysis of consumer demand, just what and how much can be sold. The sales plan is, therefore, the first step in retail merchandising. It is based, as already indicated, on the past sales records of the store, on an analysis of what is selling well elsewhere, and on reports and indications of the trends of consumer demand. It is further supported and supplemented by a study of what business conditions are likely to be and what resources of promotion will be available to help sell the goods.

A general sales plan for a retail store attempts to forecast or budget the sales possibilities by sales periods such as months, weeks, or even days. The general sales plan, to be effective, also needs to be dissected by departments, by sections, by lines of merchandise, and by price lines.

A sales plan that merely outlines a forecast of possible sales expressed in dollars presents but the first and most elementary step. A completed sales plan goes much further. It outlines by periods of time what merchandise shall be offered for sale,

what sales promotion methods shall be used, what personnel preparation will be required, and so on. Scientific sales planning is serious business, but when properly carried out offers both stability and success in the retail business.

**Model Stocks.**—Among the several detailed steps necessary to effective sales planning is the establishment of so-called model or basic stocks and the establishment of price lines. In fact, model stock arrangements in most cases include the establishment of price lines as well.

A model or basic stock is a carefully considered list of all goods considered necessary for a department to meet the requirements of its consumer clientele, limited in kinds and quantities to the best profit-making possibilities. The model stock, once established, is thenceforward used as a guide for the buying and sales promotion of the department. The model stock includes all kinds of brands, sizes, styles, and colors of goods needed, and, as indicated above, at certain price lines. If the judgments upon which the model stock are based are sound, merchandising to this stock will prove successful. If, on the other hand, there were mistakes in judgment at the time of establishing the model stock, then a careful follow-up of the results will indicate what particular sizes, lines, colors, styles or prices are favored by consumers and those which are not so favored. The goods not wanted and the slow-sellers may then be eliminated from the model stock list and other goods substituted, so that the process of setting up a model stock is in a sense continuous. Changes, however, are not made lightly. Each item dropped and each item added must be justified by good reasons. Since consumer demand is continuously changing, the model stock plan will require continuous study and may require change from time to time.

**Price Lines.**—In every analysis that has been made public of sales in retail stores by price lines, it has been found that such sales tend to cluster around certain definite prices. A



shoe store may offer to sell shoes at thirty or forty different prices, but the analysis usually indicates that the bulk of the sales falls on eight or ten or even fewer price lines. Similarly, a hosiery department may offer hosiery to the public at as many as fifty different price lines but one may find on analysis that 75% of its sales are made on five price lines.

This tendency of the consuming public to buy its goods at certain prices, as indicated above for shoes and hosiery, seems to hold for all branches of goods. Clothing, home furnishings, groceries, fruits and vegetables, all tend to sell at certain prices. Whether the explanation for this be economic or psychologic, the fact is that consumers tend to bulk their purchases largely at a few price lines. Other price lines offered by the store between those receiving major acceptance by the public usually mean but little in sales volume.

The merchandising lesson to be drawn from such analyses is clearly to eliminate price lines which are more or less meaningless so far as sales are concerned, and to concentrate on purchases of goods that can be offered to the public at the prices which they want to pay.

**Selling Calendar.**—Another important consideration in merchandising based on a study of consumer demand is to have on hand and to offer to the public such goods as they may want at the times when they want them. A detailed study of consumer demand shows a considerable variation in consumer activities throughout the year. This holds good in the consumption of foods as well as in the purchase and use of apparel of all kinds and of home furnishings. One of the steps in an effective merchandising plan is the preparation of a sales calendar forecasting consumer demand. The sales calendar is, of course, based on past experience and other indexes. All departments of the store must be ready to perform their services in accordance with the sales calendar schedule.

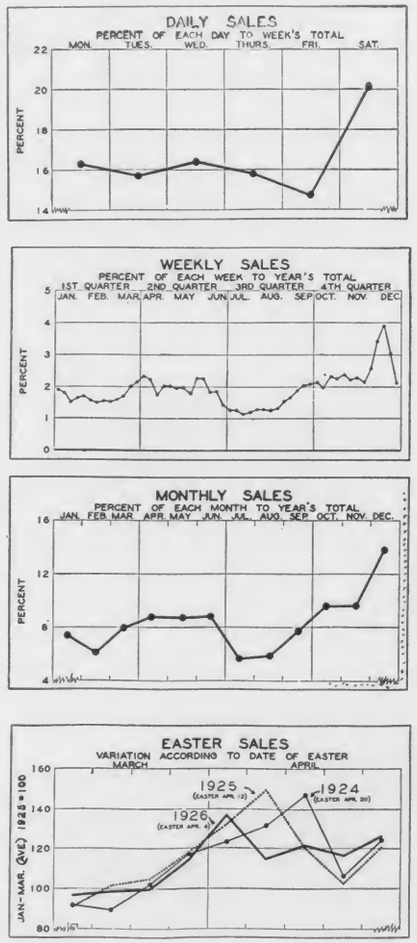



Figure 58. Variations in Department Store Sales

Information collected from Boston department stores and published in the *Monthly Review* of the Federal Reserve Bank of Boston, September, 1926.



The time changes in consumer demand bring about changes not only in the character of goods demanded but also in desirable price lines. Retail stores that carefully study the requirements of their clientele often arrive at certain fixed-price lines which become permanent bases for purchases and promotions. A store becomes favorably known for its merchandise at certain prices. But in the management of publicity and sales promotion it may be good merchandising to push different price lines at different parts of the season. Thus in fashion goods, the highest-price lines may be promoted in the earliest days of the season, the medium-price lines are pushed during the middle of the season, and the lowest-price lines are urged for sale at the end of the season. Figures 58, 59, and 60 indicate more clearly than any description in words the variations in sales from day to day, week to week, month to month, and season to season.

A form of merchandising plan or budget extensively used in department stores for each department is presented in Figure 61. This presents each month the figures for that month of last year, the estimates or forecasts of what results are expected during the coming period, and, finally, a third line for each item recording the results actually achieved. This is an excellent but elementary form of merchandising plan.

A more detailed merchandise budget is presented in Figure 62. This, too, is based on departmental results. Scientific merchandising goes still farther into merchandise details.

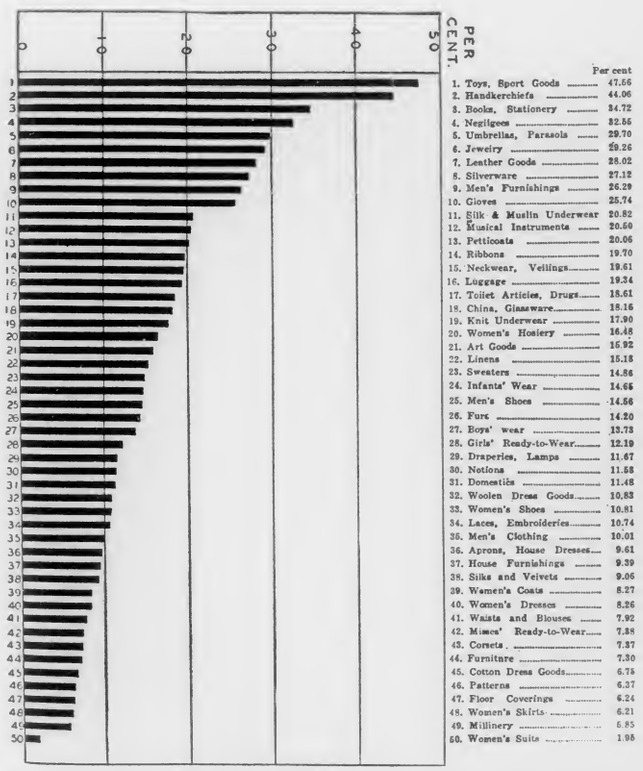
**Open to Buy.**—After a departmental merchandise plan or budget, such as described above, has been prepared, the next step is the detailed buying plan drawn up in advance of each month or week and also usually before the buyer goes to market to purchase goods. In some of the older stores the buying plan is little more than a statement of buying limits, an "open to buy," telling the buyer how many dollars he may spend for goods. The tendency, however, is to expand the buying plan

| | Per cent of each month's sales to the year's total | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
| | % | % | % | % | % | % | % | % | % | % | % | % |
| 1. Silks and velvets | 7.5 | 7.3 | 10.6 | 9.7 | 10.9 | 10.3 | 6.7 | 5.1 | 7.1 | 8.6 | 7.9 | 8.3 |
| 2. Woolen dress goods | 8.8 | 7.4 | 10.8 | 9.0 | 6.1 | 3.8 | 2.5 | 4.0 | 11.0 | 15.2 | 11.8 | 9.6 |
| 3. Cotton dress goods | 7.6 | 7.9 | 10.0 | 9.6 | 11.5 | 14.7 | 10.6 | 6.0 | 4.9 | 5.6 | 5.2 | 6.4 |
| 4. Linens | 12.5 | 6.7 | 7.3 | 5.8 | 6.9 | 7.5 | 5.9 | 5.7 | 8.8 | 8.9 | 8.7 | 15.3 |
| 5. Domestics | 11.0 | 6.3 | 7.7 | 6.0 | 7.4 | 8.1 | 6.2 | 6.9 | 10.2 | 10.4 | 8.6 | 11.2 |
| 6. Laces, trimmings, embroideries | 9.3 | 6.7 | 8.2 | 8.7 | 9.1 | 10.3 | 5.4 | 4.2 | 6.6 | 10.1 | 10.5 | 10.9 |
| 7. Neckwear and veilings | 5.6 | 6.0 | 7.4 | 9.8 | 9.9 | 9.6 | 7.2 | 5.4 | 6.0 | 7.6 | 7.9 | 17.6 |
| 8. Ribbons | 6.5 | 6.0 | 7.7 | 9.4 | 9.5 | 9.8 | 6.8 | 5.1 | 6.3 | 7.9 | 8.7 | 16.3 |
| 9. Notions | 8.0 | 7.3 | 8.4 | 8.1 | 8.6 | 10.4 | 7.9 | 5.9 | 7.5 | 8.7 | 8.0 | 11.2 |
| 10. Toilet articles and drugs | 7.5 | 6.7 | 7.8 | 7.0 | 6.5 | 8.3 | 6.9 | 6.7 | 7.6 | 8.0 | 7.9 | 19.1 |
| 11. Handkerchiefs | 4.8 | 4.1 | 4.7 | 4.5 | 4.0 | 5.0 | 3.8 | 4.1 | 5.1 | 6.1 | 9.6 | 44.2 |
| 12. Silverware and jewelry | 6.0 | 5.8 | 6.0 | 6.2 | 6.4 | 8.0 | 5.0 | 5.5 | 6.7 | 8.3 | 8.9 | 27.2 |
| 13. Leather goods | 5.2 | 4.8 | 6.0 | 6.7 | 6.9 | 7.0 | 5.8 | 6.1 | 7.3 | 7.4 | 8.7 | 28.1 |
| 14. Umbrellas, parasols and canes | 4.9 | 3.8 | 6.6 | 5.7 | 7.5 | 6.9 | 5.4 | 5.7 | 6.8 | 6.2 | 7.1 | 33.3 |
| 15. Art goods, including needlework | 8.8 | 7.6 | 8.0 | 6.2 | 6.3 | 5.8 | 5.2 | 5.9 | 8.7 | 10.3 | 11.2 | 16.0 |
| 16. Men's clothing | 7.7 | 7.6 | 8.5 | 9.8 | 8.9 | 8.6 | 5.0 | 5.5 | 7.7 | 10.4 | 10.5 | 9.8 |
| 17. Men's furnishings | 6.1 | 4.9 | 5.8 | 6.6 | 7.5 | 9.8 | 6.7 | 5.4 | 6.3 | 7.8 | 9.0 | 24.1 |
| 18. Boys' wear | 5.6 | 4.8 | 8.9 | 11.1 | 8.3 | 9.1 | 4.2 | 4.4 | 8.7 | 10.0 | 10.4 | 14.5 |
| 19. Women's ready-to-wear (total) | 9.3 | 5.8 | 8.3 | 12.2 | 11.0 | 9.3 | 5.2 | 4.5 | 6.6 | 10.6 | 10.0 | 7.2 |
| 20. Women's coats | 10.1 | 4.7 | 8.0 | 14.5 | 10.7 | 4.6 | 2.5 | 3.6 | 6.0 | 13.6 | 13.6 | 8.1 |
| 21. Women's suits | 5.4 | 5.4 | 16.5 | 23.4 | 13.4 | 5.5 | 3.1 | 3.7 | 7.3 | 8.4 | 4.8 | 3.0 |
| 22. Women's skirts | 10.5 | 6.4 | 7.6 | 9.6 | 12.4 | 18.1 | 11.3 | 6.2 | 4.9 | 4.7 | 3.6 | 4.7 |
| 23. Women's dresses | 9.4 | 6.9 | 7.3 | 8.7 | 10.4 | 12.8 | 7.2 | 5.2 | 7.2 | 9.1 | 8.5 | 7.3 |
| 24. Misses' ready-to-wear (total) | 7.0 | 5.2 | 9.3 | 12.9 | 10.1 | 8.3 | 4.4 | 4.8 | 8.0 | 11.7 | 10.1 | 8.2 |
| 25. Misses' coats | 7.4 | 3.5 | 7.2 | 17.6 | 11.7 | 5.1 | 2.7 | 3.7 | 6.2 | 14.2 | 12.5 | 8.2 |
| 26. Misses' suits | 5.2 | 5.9 | 19.9 | 25.9 | 13.6 | 5.8 | 3.2 | 2.4 | 8.7 | 5.0 | 2.4 | 2.0 |
| 27. Misses' skirts | 14.1 | 7.9 | 7.2 | 8.4 | 11.0 | 13.4 | 8.5 | 5.1 | 7.3 | 5.8 | 3.4 | 7.9 |
| 28. Misses' dresses | 7.4 | 6.9 | 7.6 | 8.9 | 9.8 | 11.5 | 6.1 | 5.1 | 9.2 | 10.3 | 8.6 | 8.6 |
| 29. Furs (excluding repairs and storage) | 12.5 | 11.8 | 3.9 | 3.3 | 2.0 | 1.1 | 1.6 | 12.3 | 5.3 | 16.1 | 18.0 | 12.1 |
| 30. Juniors' and girls' ready-to-wear | 6.5 | 4.7 | 8.6 | 13.0 | 8.3 | 7.8 | 3.8 | 3.8 | 7.7 | 11.3 | 11.9 | 12.6 |
| 31. Waists and blouses | 7.5 | 7.3 | 9.5 | 11.9 | 12.0 | 11.3 | 7.0 | 5.4 | 6.7 | 7.1 | 6.1 | 8.2 |
| 32. Sweaters | 6.8 | 4.7 | 4.5 | 5.5 | 8.8 | 13.6 | 11.1 | 8.3 | 9.7 | 8.2 | 5.7 | 13.1 |
| 33. Millinery | 5.3 | 5.5 | 11.5 | 13.3 | 9.0 | 8.4 | 4.6 | 5.3 | 12.3 | 11.5 | 7.7 | 5.6 |
| 34. Women's and children's gloves | 8.1 | 5.6 | 8.6 | 10.4 | 7.4 | 4.8 | 1.9 | 1.6 | 4.8 | 10.3 | 11.8 | 24.7 |
| 35. Corsets and brassieres | 8.6 | 7.3 | 9.1 | 9.4 | 9.7 | 10.7 | 8.0 | 6.9 | 7.7 | 7.9 | 7.1 | 7.6 |
| 36. Women's and children's hosiery | 5.9 | 5.2 | 7.4 | 8.6 | 8.8 | 9.5 | 6.7 | 5.9 | 6.8 | 8.4 | 9.3 | 17.5 |
| 37. Knit underwear | 10.3 | 5.6 | 5.6 | 6.4 | 7.8 | 8.6 | 5.3 | 4.2 | 5.8 | 10.2 | 12.7 | 17.5 |
| 38. Knit underwear, inc. glove silk | 9.0 | 5.2 | 5.5 | 6.2 | 7.4 | 8.6 | 5.5 | 4.0 | 6.0 | 11.2 | 12.2 | 19.2 |
| 39. Muslin underwear | 7.4 | 5.2 | 6.4 | 7.6 | 9.6 | 11.8 | 7.8 | 6.5 | 5.5 | 6.4 | 7.4 | 18.6 |
| 40. Silk and muslin underwear, inc. petticoats | 7.8 | 5.8 | 6.3 | 7.8 | 8.8 | 11.4 | 7.7 | 5.6 | 5.5 | 6.5 | 7.9 | 18.9 |
| 41. Infants' wear | 5.7 | 5.1 | 7.4 | 9.1 | 8.4 | 7.2 | 5.1 | 5.4 | 8.7 | 11.3 | 10.0 | 16.6 |
| 42. Aprons and house dresses | 7.2 | 6.2 | 7.2 | 8.6 | 11.4 | 14.9 | 10.3 | 6.2 | 5.4 | 5.6 | 6.0 | 11.0 |
| 43. Negligees, aprons and house dresses | 5.1 | 6.5 | 6.7 | 7.4 | 9.5 | 12.9 | 9.4 | 6.3 | 5.6 | 6.6 | 7.3 | 16.7 |
| 44. Negligees and bathrobes | 7.9 | 5.3 | 4.9 | 5.5 | 6.2 | 7.7 | 5.6 | 4.6 | 6.6 | 7.6 | 9.4 | 28.7 |
| 45. Petticoats | 7.0 | 6.7 | 7.4 | 8.1 | 8.7 | 9.9 | 5.9 | 4.9 | 5.7 | 7.0 | 8.4 | 20.3 |
| 46. Women's and children's shoes | 7.9 | 5.0 | 8.5 | 9.9 | 9.4 | 10.1 | 6.5 | 5.7 | 7.8 | 9.2 | 8.4 | 11.6 |
| 47. Men's and boy's shoes | 8.3 | 5.9 | 8.0 | 9.5 | 8.8 | 8.9 | 5.7 | 5.1 | 7.5 | 8.8 | 8.5 | 15.1 |
| 48. Furniture, beds, mattresses, springs | 8.8 | 9.9 | 6.6 | 6.8 | 7.3 | 6.9 | 6.6 | 14.2 | 8.6 | 9.5 | 6.9 | 7.8 |
| 49. Draperies, lamps and shades | 6.5 | 5.9 | 7.4 | 7.6 | 8.7 | 7.7 | 5.2 | 6.1 | 9.8 | 12.7 | 11.4 | 11.0 |
| 50. Floor coverings | 7.8 | 7.0 | 8.8 | 8.3 | 8.9 | 7.4 | 5.3 | 8.7 | 10.7 | 11.5 | 8.9 | 6.7 |
| 51. China and glassware | 7.2 | 6.2 | 6.6 | 7.4 | 7.1 | 8.6 | 4.8 | 5.7 | 9.1 | 9.7 | 11.0 | 16.6 |
| 52. House furnishings | 6.7 | 6.0 | 7.6 | 8.9 | 9.0 | 9.0 | 6.2 | 6.2 | 10.4 | 9.8 | 9.2 | 11.0 |
| 53. Toys and sporting goods | 2.7 | 3.2 | 4.0 | 4.6 | 5.4 | 6.5 | 5.1 | 4.5 | 4.7 | 5.1 | 9.8 | 44.4 |
| 54. Luggage | 6.0 | 5.0 | 5.4 | 6.0 | 9.0 | 12.0 | 8.7 | 8.1 | 8.8 | 5.8 | 6.2 | 19.0 |
| 55. Books and stationery | 6.0 | 5.5 | 5.4 | 4.7 | 4.9 | 5.3 | 4.4 | 4.2 | 6.4 | 6.9 | 10.3 | 36.0 |
| 56. Musical instruments | 7.1 | 9.8 | 9.6 | 6.6 | 6.6 | 4.9 | 4.7 | 6.8 | 7.3 | 9.6 | 9.4 | 17.6 |
| Entire store | 7.3 | 6.0 | 7.8 | 8.2 | 8.1 | 8.3 | 7.3 | 6.9 | 7.4 | 9.0 | 8.8 | 14.9 |

This tabulation represents the average conditions during the 1923–1925 period in 45 New England department and specialty stores. The conditions of the same concerns are represented throughout the study, and data for each department represent the maximum number of stores reporting on that particular type of merchandise. In the majority of the departments data of from 20 to 35 stores were available.

Figure 59. Seasonal Variation of Sales by Departments—Representative New England Department and Specialty Stores. From Monthly Review of the Federal Reserve Bank of Boston, October, 1926






| | Per cent |
|---|---|
| 1. Toys, Sport Goods | 47.66 |
| 2. Handkerchiefs | 44.06 |
| 3. Books, Stationery | 34.72 |
| 4. Negligees | 32.85 |
| 5. Umbrellas, Parasols | 29.70 |
| 6. Jewelry | 29.26 |
| 7. Leather Goods | 28.02 |
| 8. Silverware | 27.12 |
| 9. Men's Furnishings | 26.29 |
| 10. Gloves | 25.74 |
| 11. Silk & Muslin Underwear | 20.82 |
| 12. Musical Instruments | 20.60 |
| 13. Petticoats | 20.06 |
| 14. Ribbons | 19.70 |
| 15. Neckwear, Veilings | 19.61 |
| 16. Luggage | 19.34 |
| 17. Toilet Articles, Drugs | 18.61 |
| 18. China, Glassware | 18.16 |
| 19. Knit Underwear | 17.90 |
| 20. Women's Hosiery | 16.48 |
| 21. Art Goods | 15.92 |
| 22. Linens | 15.13 |
| 23. Sweaters | 14.86 |
| 24. Infants' Wear | 14.65 |
| 25. Men's Shoes | 14.56 |
| 26. Furs | 14.20 |
| 27. Boys' wear | 13.73 |
| 28. Girls' Ready-to-Wear | 12.19 |
| 29. Draperies, Lamps | 11.67 |
| 30. Notions | 11.58 |
| 31. Domestics | 11.48 |
| 32. Woolen Dress Goods | 10.83 |
| 33. Women's Shoes | 10.81 |
| 34. Laces, Embroideries | 10.74 |
| 35. Men's Clothing | 10.01 |
| 36. Aprons, House Dresses | 9.61 |
| 37. House Furnishings | 9.39 |
| 38. Silks and Velvets | 9.06 |
| 39. Women's Coats | 8.27 |
| 40. Women's Dresses | 8.26 |
| 41. Waists and Blouses | 7.92 |
| 42. Misses' Ready-to-Wear | 7.88 |
| 43. Corsets | 7.37 |
| 44. Furniture | 7.30 |
| 45. Cotton Dress Goods | 6.75 |
| 46. Patterns | 6.37 |
| 47. Floor Coverings | 6.24 |
| 48. Women's Skirts | 6.21 |
| 49. Millinery | 5.85 |
| 50. Women's Suits | 1.98 |

Figure 60. Percentage of Year's Department Store Sales Made in December, by Individual Departments

From the *Monthly Business Review* of Cleveland Federal Reserve Bank, December, 1926.

**MERCHANDISE PLAN**

Dept..... No..... .....Season, 19..

| Spring Season / Fall Season | Mar. / Sept. | Apr. / Oct. | May / Nov. | June / Dec. | July / Jan. | Aug. / Feb. | |
|---|---|---|---|---|---|---|---|
| SALES Increase%..... Last Year Plan This Year %..... Result This Year..... | | | | | | | Total |
| MARKDOWNS..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Total |
| RETAIL STOCK (1st of Mo.).... Last Year..... Plan This Year..... Result This Year..... | | | | | | | End Season |
| COST STOCK (1st of Mo.)..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | End Season |
| RETAIL PURCHASES..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Total |
| COST PURCHASES..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Total |
| % OF MARKDOWNS..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Average |
| % MARKUP..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Average |
| % M. U. ON PURCHASES..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Average |
| % DISCOUNT..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Average |
| TURNOVER..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Average |
| EXPENSE..... Last Year..... Plan This Year..... Result This Year..... | | | | | | | Total |

Ratio for Determining End of Season Stock Last Year .....Plan.....Actual.....

Figure 61. A Season Merchandise Plan



to fit the detailed analysis made in consumer studies, sales plans, and model stocks, by indicating the "open to buy" by merchandise sections, by lines of goods, and even by units.

**MERCHANDISE BUDGET**

Dept..... No..... ..... Season, 19..

| | Feb. Aug. | | | Mar. Sept. | Apr. Oct. | May Nov. | June Dec. | July Jan. | Total or Final |
|---|---|---|---|---|---|---|---|---|---|
| | Last Year | This Year | Actual | Triple columns for each month and for total are omitted here to save space. | | | | | |
| Sales: | | | | | | | | | |
| Month..... | | | | | | | | | |
| Season..... | | | | | | | | | |
| % Increase or Decrease. | | | | | | | | | |
| Returns from Month..... | | | | | | | | | |
| Customers' % of Sales Season | | | | | | | | | |
| Stock at Ret. E.O.M. ..... | | | | | | | | | |
| Turnover..... | | | | | | | | | |
| Retail Transfers..... | | | | | | | | | |
| Purchases: | | | | | | | | | |
| Foreign..... | | | | | | | | | |
| Domestic..... | | | | | | | | | |
| Total Cost..... | | | | | | | | | |
| Total Retail..... | | | | | | | | | |
| Markup: | | | | | | | | | |
| Foreign..... | | | | | | | | | |
| Domestic..... | | | | | | | | | |
| Total..... | | | | | | | | | |
| Markdown: Foreign..... | | | | | | | | | |
| % of Sales: | | | | | | | | | |
| Domestic..... | | | | | | | | | |
| Combined..... | | | | | | | | | |
| Season..... | | | | | | | | | |
| Shortages..... | | | | | | | | | |
| Gross Profit..... | | | | | | | | | |
| Expense..... | | | | | | | | | |
| Net Merchandise Profits.... | | | | | | | | | |
| Cash Discounts %..... | | | | | | | | | |
| Salaries—Selling..... | | | | | | | | | |
| Salaries—Non-selling..... | | | | | | | | | |
| No. of Sales..... | | | | | | | | | |
| No. of Sales per s.p. ..... | | | | | | | | | |
| Average Sale..... | | | | | | | | | |
| Adv. Expense..... | | | | | | | | | |

Buyer.....Mdse. Mgr.....Vice Pres. .....

Figure 62. Detailed Merchandise Budget for a Season

As many details as possible of what is to be purchased are predetermined. Such outlined buying is, of course, entirely practicable on staple lines but it has also been applied successfully to fashion goods.

**Open to Buy Formulae.**—After a season or six months' merchandise plan has been prepared, indicating the stocks at the first of the month, the expected sales, and the planned stocks at the end of the month, the buying limits or open to buy may at any given time be computed by the following:

1. The sum of the sales to date, the planned sales to the end of the month, and the planned stock at the end of the month less the sum of the stock on hand at the first of the month, the purchases received, purchases en route and outstanding orders for delivery during the month equals the open to buy. Illustration:

| | | |
|---|---|---|
| Sales to date | $ 6,000 | |
| Planned Sales E. O. M. | 4,000 | |
| Planned Stock E. O. M. | 40,000 | |
| Total | | $50,000 |
| Stock on hand 1st of month | 40,000 | |
| Purchases received | 5,000 | |
| Purchases en route | 1,500 | |
| Outstanding orders for delivery during month | 1,500 | 48,000 |
| Total open to Buy | | $ 2,000 |

2. The sum of the planned stock at the end of month and planned total sales for the month less the sum of sales to date, the stock on hand and outstanding orders for delivery during month equals the open to buy. Illustration:

| | | |
|---|---|---|
| Planned Stock E. O. M. | $40,000 | |
| Planned Sales for month | 10,000 | $50,000 |
| Sales to date | 6,000 | |
| Stock on hand | 39,000 | |
| Outstanding purchases for delivery during month | 3,000 | 48,000 |
| Total open to Buy | | $ 2,000 |

**A Trip-Buying Plan.**—A trip-buying plan (Figure 63) goes into much greater detail not only as to buying limits in dollars but also in definite plans as to purchases to be made by



**TRIP BUYING PLAN**

Dept. ..... No. ..... Date. .....

Total to Buy at retail $. ..... at cost $. .....

| Selling Price | Style Nos. | Description | No. in Stock | No. on Order | Total Stock | Sold to Date | Planned Sales to E.O.M. | Total Sales | No. to Buy | Cost | Total | Total Retail |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | |

..... Buyer ..... Mdse. Mgr.

Figure 63. Trip Buying Plan

the kinds of goods, by price lines, and the amounts of each item to be purchased. Such detailed planning, when accompanied by a necessary degree of flexibility in meeting local and immediate conditions, is considered to be the most effective and advanced form of merchandise planning now in use.

**Stock Control.**—Up to very recent years it was believed by most retailers that an annual inventory, or at most a semi-annual inventory, was sufficient to check up merchandise stock conditions in the store. Following the taking of such periodical inventories the retailer closed his books, prepared his operating statement and balance sheet. When taking the inventory, goods were discovered that had not been selling very well. These were usually set apart for special or clearance sales. No effort was made to secure continuous control.

One of the results of the scientific management movement of 1911-1915 was the widespread adoption among manufacturing concerns of careful control of all supplies and stocks of goods by means of what is known as the perpetual inventory. The rapid spread of the use of perpetual inventories in the industries during the past twenty years has been duplicated to a considerable extent by the application of adaptations of the perpetual inventory idea in retail stores.

Merchandise planning and control in terms of dollar value has probably been carried farther and used more widely among retail stores than in the industrial field, but physical unit control, that is, the perpetual inventory, has been more widely and successfully used among industrial concerns than among retailers. Dollar control provides much essential information for proper merchandising but it does not indicate precisely what lines and items of goods are selling well or poorly, as the case may be. In the effort to secure exact information on the sales movements of detailed items of stocks, physical unit stock control systems are necessary.

Unit stock control as at present administered in retail store



practice serves several purposes. It is used by the buyer or department head to adjust the amount of stock carried to his sales. It aids the buyer in determining what merchandise consumers want and, at the same time, shows what goods are slow-selling and which should be eliminated from stock. As a result of this information which the unit stock control system provides, sales effort may be concentrated upon the items, on the kinds of goods, the sizes, colors, styles, and prices that sell most freely.

The effect of a better adjustment of stocks to possible sales is to increase the total sales in relation to the amount of stock carried and to reduce the capital investment in stocks carried. This means more economical use of capital on the one hand, or higher sales volumes on the other from the same amount of stock in more carefully selected lines such as consumers desire. In either case the net profit results should be better.

A properly conducted unit stock control system should be useful as a means of pointing out the sources of merchandise losses in markdowns by lines, items, styles, colors, sizes, and so on. In goods of high unit prices, unit stock control may be a means of checking stock shortages. Any item missing or lost may be traced to the last person who handled it.

The most important purpose of unit stock control systems is the possibility of obtaining analyses and summaries of the conditions of stock on hand on short notice. Without the necessity of taking a physical inventory it is possible from the unit stock control system to get information on such points as kinds of goods on hand, by price lines, by styles, by materials, sizes, and colors, and by resources from which they were purchased. Where unit stock control systems are properly established it is possible to secure summaries on items sold during any past period, the number on hand, the number on which markdowns have been taken, and the amount of markdowns, the number of returns from customers, the number on which adjustments have been made, and so on.

The values of such information to merchandising are so obvious that the question may reasonably be asked why unit stock control systems are not used in every retail store and in every department. The answer to this question is to be found in the expense and difficulty of establishing and maintaining accurate unit stock control.

In the first place, the expenses of operation of an effective unit stock control system are considerable. Such expenses include not only the necessary equipment of files and records, computing machines and typewriters, but also competent clerical help. In the experience of stores operating unit stock control systems, these expenses range from 0.2% to 1.0% of sales. The addition of another one-fifth up to 1% of sales to an already heavy burden of overhead of retail expense is a serious matter that must be carefully considered before the step may be taken.

Unit stock control, if attempted at all, must be accurate. A unit stock control system with errors in it is worse than useless. It is positively misleading and harmful. Therefore, if there is to be a unit stock control system at all, it must be operated by competent and specially trained clerks. Attempts to administer unit stock control too cheaply, with the help of improperly trained people, or of employees whose chief interests and energies fall into other lines, has usually come to grief.

To make unit stock control effective absolutely every bit of information on sales, markdowns, purchases, loans of merchandise to other departments, credits, returns from customers and to resources, and so on must be made available and must be used in the stock control records. In order that all of this information may be promptly obtained by the unit stock control office, reorganizations are sometimes necessary in other departments of the business. Unit stock control cannot succeed without the cooperation of other departments, such as the order and invoice department, the receiving and marking room, the accounting department, the publicity division, and so on.



The difficulties of securing such cooperation from all of these departments are always great and in some stores apparently insurmountable.

Finally, unit stock control means system and this, to many people, means red tape. Every movement of merchandise into stock and out of stock must be recorded. The detailed operations of unit stock control are sometimes distasteful even to heads of departments and merchandising people who should be most active in welcoming and using them.

Unit stock control has made considerable progress. Various forms of unit stock control are to be found in use in the wide variety stores. Probably more than half of the department stores of the country and, most surely, nearly all of chain store systems employ unit stock control to some degree and in some form. There have, however, been many failures. Unit stock control appears to be most successful in those stores in which its establishment was undertaken with conservative care and where considerable executive attention was applied, particularly in the early stages of its operation.

**Preliminary Steps to Stock Control.**—Before starting unit stock control, a retail store needs to take certain other necessary steps without which unit stock control is impossible or useless. These preliminary steps, it happens, are in themselves desirable features in merchandising. The retail store looking forward to the possibility of unit stock control may well begin by establishing each of these steps before making final provision for stock control.

Among the steps preliminary to unit stock control are: (1) *departmentization,* which is in an important way the first step toward stock control; (2) the *retail inventory system* without which unit stock control would be in endless difficulties; (3) *model, basic or standard stocks* upon which the store's merchandising is based, defining the kinds of merchandise to be carried, including proper assortments and price lines; (4)

*frequent, accurate physical inventories;* and (5) a system of *accurate records and controls of markdowns, credits, shortages, and so forth.* Until a retail store has taken these steps and has mastered the technique of prompt, accurate records in each of these, unit stock control is quite impossible. After these steps have been taken, unit stock control may be the next logical step.

**Systems of Unit Stock Control.**—Unit stock control systems may be classified in accordance with the types of records used and of stock movements checked and controlled.

1. *Individual unit stock control* keeps a record of the movement of every piece of merchandise. Information is obtained for this record of every sale from sales checks, price ticket stubs, or cash register vouchers. Individual unit stock control is most frequently found in retail stores and departments handling apparel, furs, furniture, floor coverings, and musical instruments. It may be applied to any type of goods in which the unit sales value is considerable. As already indicated, the expense of unit stock control is an important consideration, and the system of individual unit stock control can only be applied to such goods as have a sufficient margin to permit carrying the additional burden of the expense of such control. Unit sales control has been successfully applied to merchandise of unit sales values as low as $5. It is possible that it may be applied to goods with even lower sales units. It is doubtful, however, that it can be profitably applied to items of unit values much below $1. The costs of operation of the control system as applied to low-price goods would loom too heavily. The expense would outweigh the advantage.

2. *Reserve stock control* is a method of stock control applied to reserve stocks rather than to forward or sales stocks. This method of stock control is a modification of unit control and is generally applied to goods of low unit values such as notions, toilet goods, and other small wares. Certain maximum and minimum limits are first set on forward or sales stocks and requisitions on the reserve stocks are made for quantities such as cartons, cases, or dozens. The control system is based on the movement of these quantities rather than on the single items.



3. *Measured goods control.* Merchandise that is not sold by the piece but must be measured, such as yard goods, may be controlled by means of sales slip records together with an adaptation of a perpetual inventory in which the quantity of each sale is recorded and deducted from the total on hand. This record is attached to the stock, that is, to the bolt of unsold piece goods, to the bin from which sales are made, or to the shelf where the goods are stored. Alternatives to this method have been suggested for yard goods departments but have not received any wide acceptance. Among them, one plan is to use a paper measure strip rolled into the bolt, or to have a measure printed on the selvage of the fabric, either of which will permit an easy check-up of amounts of any item on hand. The control of measured goods such as yard goods is fairly accurately attained by means of unit control records of unbroken bolts and by means of dollar control reduced to sections and subsections of fabric departments on actual sales.

4. *Order record control.* Another form of unit stock control, based on orders placed by the store, is useful as a means of indicating the rate of movement of various items. Goods frequently ordered are, of course, those most in demand, while goods that are ordered but seldom, as indicated by this form of stock control, may be eliminated.

5. *Tickler control* is unit control obtained by means of weekly or other periodic physical inventories at which time purchases and sales are also computed. The sales figures for each item are obtained by adding purchases to the preceding inventory total and subtracting the current inventory. This method is useful in controlling goods of varying unit values.

**Unit Stock Control Forms and Their Use.**—The simplest form of unit stock control is a perpetual inventory record card, using a separate card for each type of merchandise to be controlled. Such a card record would have appropriate spaces to indicate additions to stock, withdrawals from stock, and amounts on hand. Purchases of goods from vendors or returns of goods from customers are posted to these records whenever

Article..... Vendor.....
Price..... Quality..... Max..... Min.....

| Date | Received | | Disbursed | | Balance on Hand |
|---|---|---|---|---|---|
| | From Mfgr. | From Customers | Sales | Returns to Mfgrs. | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

(over)

Figure 64. A Simple Unit Stock Control Record

goods pass into stock. Sales or other withdrawals are usually posted daily and the balance of stock on hand struck off at the same time.

Careful planning is needed in advance of establishing a unit stock control system to determine what detailed units shall be controlled. Modern, effective stock control secures a detailed record of stock movements by such details as styles, sizes, colors, materials, price lines, and resources or vendors



Figure 64 illustrates a typical simple form of unit stock control record form in common use.

In conclusion, stock control, properly administered, supplies a statistical aid to buying what in the experience of the store is found to sell best, not only by kinds of merchandise but also by styles, sizes, colors, materials, price lines, and resources. For staple goods handled year in and year out, the unit stock control system will supply information that can make buying almost automatic. On style goods the unit control system can be made an aid to determining what styles are in fashion, what styles are coming in, and what styles are passing out of fashion.

Unit stock control is a means of checking up wanted items that are out of stock when customers call for them. Where there is no stock control check-up of this sort there is usually a very high percentage of such instances of out of stock.

Unit stock control is also a means of indicating dead stocks such as are found in most merchandise departments not properly controlled. The stock control system may be made to point out infallibly all inactive stocks and slow-sellers and thus supply the department head with information needed upon which to take measures for clearance of such goods and of introduction of other goods with a better chance of sale.

**Buying Merchandise for a Retail Store.**—The resources utilized by a retail store will vary in accordance with the size of the store, that is, the volume of its purchases, the kinds of goods handled, and the distance from markets. Some stores patronize local wholesalers, others buy from large city supply houses, still others buy a large part of their stocks directly from manufacturers. Whatever the resources, the work of the retail store buyer, preliminary to buying, should be practically the same. The study of consumer wants, and the buying plan based on the past sales experience of the store, constitute the foundation. The next step is the search for the merchan-

dise that will most nearly satisfy the requirements of the store and its clientele.

For the buyer or retailer who finds it impossible to go to the wholesale markets regularly, there are channels of information which, if properly used, may help to keep him up to date on developments of new merchandise, new resources, prices, styles, and so on. Among such sources of information are the trade papers, the business pages of daily papers, the advertising of retail stores in the larger cities, trade directories, and special market reports issued by shopping service organizations and resident buying offices.

For the buyer who does go to market regularly to make his merchandise purchases there is the additional means of securing information through the use of resident offices where employees are, as a rule, maintained to keep in close touch with all market developments and to give information to the visiting buyer. After making the contact with the resident office it is usually a good plan for the visiting buyer to visit some of the retail stores first to see what is displayed and what is selling in the lines of goods in which he is interested. Next the buyer should systematically visit resources handling the types of goods in which he is interested, including many besides his regular past sources of supply to insure an adequate basis for comparison and information as to new lines and new ideas. After completing the survey, the comparison of resources and their merchandise, the next steps are to determine what goods to buy that will best fit in to the store's requirements, to concentrate the purchases, if possible, with a few concerns so as to make it worth their while, and then to undertake to buy such goods as advantageously as possible.

**The Qualifications for Good Buying.**—The retail store buyer, to succeed in present-day business, must be a technical expert in his lines of goods. He must know qualities and the materials and processes of production which result in qualities.



Furthermore, he should know costs of production so well as to place himself on a parity with producers and sellers as to knowledge of all of the conditions of production of the goods. There are retail buyers, a few of them, who are so well grounded in the economic phases of the industries with which they deal as to be able to estimate very closely what new goods should cost to produce under given conditions of raw materials supply and of labor conditions. Occasionally a good buyer is in position to advise his suppliers on methods of production leading to lower costs of production.

The retail store buyer must be close in his contacts and in his information to consumer demand and its trends. Consumer wants give merchandise values. Success in retailing, as has often been stated in this book, is based on finding out what consumers will want and then in giving it to them. The chief difficulty in knowing what consumers will want grows out of the fact that consumer demand everywhere, always and for all kinds of goods, is constantly changing. In some cases the changes are rapid, in others extremely slow, but always there is change. Expert buying means the ability to meet these changes with exact knowledge of the extent and direction of these changes. The buyer must be an expert in fashions and trends in consumption.

As most independent stores are now organized, the buyer must also be an executive, a manager, a supervisor of employees and of work done in the store. He must be a salesman and a sales manager. He must be a teacher and a disciplinarian. His responsibility it is not only to buy desirable goods, but also to sell them as well, at a profit.

**Trading.**—One of the essential qualities of good buying for a retail store is not only to secure the kind of goods that will be wanted by the clientele of the store but also to buy them as advantageously as possible so that a profit may be assured. There are many elements besides price that enter into

trading. The desirability of the merchandise from the standpoint of style and quality is the most important factor of all. Goods not wanted by the store's customers are not a bargain at any price.

The precise quantity required to take care of the store's consumer demand is the next most important consideration, and temptations to deviate from this quantity, particularly when large discounts are offered for taking larger amounts, are exceedingly dangerous to good retailing. Individual packing, special containers, special labels, private brands, are sometimes and with some retailers important considerations. The reliability of the resources as to qualities of merchandise, times of deliveries, and general policies of doing business are also important factors in trading.

After the determination of the cost price there are several other points upon which the trading buyer attempts to seek advantage such as:

1. Cash discount which constitutes the only profit that most stores get and which if increased by only 1% may put the purchase above the profit line.

2. Dating and terms. A buyer who secures 2% 10 days with end-of-month dating has made an important gain over the buyer who has secured terms of merely 2% 10 days flat.

3. Anticipation discounts. If goods are purchased for future delivery, or if dating given allows considerable time before payment, an anticipation discount usually equivalent to normal rates of interest is an important consideration to the store that has ample capital and cares to pay its bills in advance of dates due for the sake of gaining this discount.

4. Trade discounts which vary greatly, sometimes without rhyme or reason although usually based on real or nominal market considerations, are subjects for continual investigation and trading consideration.

5. Quantity discounts or rebates are sometimes offered when larger quantities are purchased. Deviations from the regular buying plan are sometimes justified when the discounts are sufficiently large, but it should be remembered that the mounting expenses of carrying goods in stock beyond their normal selling periods, together with the risks of depreciation, must be balanced against the advantages offered for purchasing larger quantities.



6. Goods offered on consignment requiring no advance payments are important considerations in some stores and in some trades.

7. The privilege of cancellation and return of unsold goods may be a desirable point for a buyer, particularly if his purchase is in the nature of an experiment.

8. Provisions for reorders or renewals of contracts at the same prices are often asked for and granted as a part of a bargain.

9. Provision against price changes by advance notices of increases and protection against decline are similarly conditions of trading between retailers and their suppliers.

10. Provision for securing adequate quantities of goods at special prices for special sales such as close-outs, seconds, and off-grade merchandise, are highly important to many stores.

11. Allowances of various amounts for advertising, for display, for demonstration, or for special effort are frequently made by manufacturers to retailers. These items sometimes mount into important sums.

12. Exclusive sales privilege within the trade territory is a condition worth trading for on some goods.

The foregoing list is indicative of the types of things that retail store buyers fight for. There is, however, a very real danger of overtrading. Vendors are as expert in selling as buyers are in buying. The overtrading buyer finds that sellers have adequate defenses against him. Trading is a two-sided battle. The sellers probably win as often as the buyers do. The buyer will find it most advantageous in the long run to be fair in his trading, to seek only such conditions as are reasonable and as will place him on a fair basis of competition with his neighbors, in other words, to aim to buy his goods as cheaply as competitors buy them.

**Markdowns.**—One of the most difficult problems of merchandising is how to dispose of the slow-moving goods, the mistakes of buying. Marking down the goods constitutes the usual method by which such goods are moved out, and markdowns are a constant menace to the retail profits of every retail business. The object of merchandise planning and control is to correct the buying so that the store may own and offer a larger proportion of such merchandise as consumers will want at regular prices. This achievement in itself automatically reduces markdowns. But in addition to the use of control measures, markdowns may be regulated and reduced considerably by such methods as the following:

Seasonable goods that are found to be slow-moving can often be sold out at small markdowns if the markdowns are taken at the height of the season instead of waiting and hoping for a turn before the end of the season. Slow-moving goods that require markdowns may sometimes be disposed of with the help of salespeople properly instructed on how to present these goods and perhaps given the added inducements of P.M.'s or commissions for making the effort. Similarly, by changing displays and giving slow-moving goods a better sales opportunity, sales may sometimes be secured before drastic markdowns become necessary. Careful watching by the buyer and his assistants of the daily movement of merchandise in the store or department are means of preventing the overbuying and consequent accumulation of goods upon which markdowns must be taken.

**The Merchandise Organization.**—The traditional merchandising organization in retail stores centers around the buyer whether the buyer, as in a small store, be the owner of the business or, as in a large store, a department head. The theory underlying the buyer organization of merchandising is that buying and selling for a retail store, together with all other activities related to merchandising, are parts of one and



the same activity. The buyer is made responsible for the selling of the goods for the reason that his purchases were made with a view to resale, and he probably knows best how to sell them. The best selections of goods for retail stores are those which are most definitely made on the possibility of actual sales to specific customers.

In chain store organizations with many retail store outlets the functions of merchandising must be divided; consequently, buyers in chain store organizations are usually responsible solely for the purchase of goods, while store managers and their assistants are responsible for the sale of them. Experiments have been made in department stores on dividing the functions of buying and selling, but there is as yet no widespread indication of a general trend toward such subdivision in the department store field. The organizations of chain department stores are faced by the problem of determining whether to retain the traditional buyer-managed department system or to adopt the chain method of separating buying and selling organizations.

**The Declining Functions of the Buyer.**—Over a period of several years there has been an interesting progression of changes affecting retail store buyers and department heads. In the small stores of the past, as at the present, the head of the store acted as his own buyer as well as accountant, advertising man, and store manager. In the development of larger stores, buyers when appointed first enjoyed most of the functions of the owner of a small store. Accounting was the first activity to be specialized and separated from the buyer's duties. Later, advertising was separated and turned over to a specialist who prepared the advertising copy used to sell the buyer's merchandise. Next, the function of hiring salespeople and other help was taken from the buyer and turned over to a central employment department. In the meantime, the functions of the accounting department have grown so that mer-

chandise planning and control is almost as much the work of the accountant or controller as of the buyer. Often the accountant has more to do with merchandise control than the buyer.

There have also been developments such as group and central buying engaged in by retail stores. These activities have modified and limited the buyer's individual action considerably. Now, there is much agitation of the idea of separating the buying from the selling functions. If this is carried out, then buyers will have lost all of their original functions excepting the selection and purchase of merchandise.

In a number of the larger retail stores both in this country and abroad the expert knowledge of the buyer of the technical qualities of the goods has been supplemented by the more exact information of laboratories which have in some cases been established within stores. In other cases there has been a growing patronage by retail stores of outside scientific laboratories sure to render impartial, unbiased reports of findings concerning goods tested.

Similarly, the knowledge of buyers in many retail institutions on consumer trends has been supplemented by the appointment of fashion advisers and by research on consumer demand.

The rapid development of resident buying offices and of cooperative or central buying has to some extent changed the sphere of activity of the retail buyer from its traditional channels and points to even more revolutionary changes to come in the future.

What with the development of the statistics of merchandising, unit stock control, scientific testing laboratories, intensive and specialized study of consumer demand and its trends and central buying in one form or another, buying is becoming more exact and more standardized, but the work of the buyer is becoming less romantic, less of a gamble, less mysterious, and, probably, less well-paid.



The work of retail store buyers has in the period of a few years changed from that of a department monarch or feudal lord to that of a departmental functionary, and the end of this development is not yet in sight.

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# CHAPTER XIV

## RETAIL SELLING AND RETAIL SALESMANSHIP

There are a number of limitations on the exercise of salesmanship, as this art is understood elsewhere, in retail stores. Contact with the consumer is all-important. The success of the retail business depends on sales satisfactorily made to consumers. If selling fails, all else fails.

Salespeople working within the retail store are limited, first of all, by the number of people who call on them. Since they are stationed within the store they cannot reach out for prospects beyond persons who enter the store, and the processes by which people are induced to enter the store, while affected by the past service of retail salespeople, are independent of what the retail salesperson may be able to do on any given day. It is the function of advertising, of window display, of the proper sort of building in a good location, of store reputation and goodwill, to bring people to the store. The retail salesperson's work begins at the point where these forces leave off.

Salespeople in retail stores are likewise limited by the lines and kinds of merchandise handled. Scarcely any store can deal in all of the lines of merchandise in which the public might be interested. A limited selection must be made and, finally, the detailed selection made by the buyer of the store is an important factor in selling over which the retail salesperson has but little control and usually very little opportunity even to make suggestions.

**Of What Does the Work of Selling Consist?**—An analysis of the work of retail salespeople will indicate that actual selling, that is, showing merchandise to customers with the





view to produce sales, takes up but a fraction of the entire time of the salesperson. In addition to actual selling there are other duties to perform for customers, such as the giving of information, rendering the necessary service such as packing, wrapping, change making, and so on, after the sale is made. There is also the important work of keeping the stock in order. To these duties, in some retail stores, there is sometimes added other work for the retail salespeople such as opening, checking, and marking new merchandise, assisting in taking inventories, in record-keeping, and so on. Finally, there is in every store a certain amount of idle time or waiting for customers which cannot be avoided.

In a study made by the Domestic Commerce Division of the U. S. Department of Commerce on analyzing retail selling time in a retail organization operating retail stores in New York, Chicago, Philadelphia, and Boston, over a considerable period, the distribution of salespersons' time was as follows:[1]

| | |
|---|---|
| Actual selling | 29% |
| Service to customers after sale is made | 13 |
| Giving information and extending other help to customers | 8 |
| Stock work | 17 |
| Waiting or id'e time | 33 |
| Total | 100% |

If one may assume that the distribution of the time of salespeople found in this study is typical, it will be seen that only 50% of the salesperson's time is actually spent with customers and that a third of the time is actually wasted in waiting between sales. Stock work, as indicated above, requires somewhat less than a fifth of the total time of the salesperson.

There is much room for further study of the problems of best use of the time of salespeople with the view of changing some of the idle or waiting time into productive time. There

[1] G. E. Bittner, Analyzing Retail Selling Time, Domestic Commerce Division, U. S. Dept. of Commerce.

is also the possibility of increasing the efficiency of effort carried on during the productive time.

**Little Salesmanship Exercised in Retail Stores.**—Although, as indicated in the foregoing paragraph, salespeople spend somewhat more than a fourth of their time in actual selling, most of the work done even in this period is really service in finding and in giving to customers what they want.

Shoppers may be classified as follows:

1. Those who know what they want and come to the store to satisfy those wants.
2. Those who have wants but desire to see merchandise and make comparisons before deciding on which particular items to buy.
3. Those who have no definite wants and are only sold on impulse, suggestion, or actual salesmanship.

The number of each of these classes of shoppers will vary with the type of merchandise and the kind of store. The following estimate is intended to emphasize the classification rather than to indicate an accurate division. Probably from 50% to 75% of all sales made in retail stores are of goods which customers have come there to buy, knowing in advance what they want. Probably from 10% to 25% of all the sales made are to customers whose wants are indefinite, and who are satisfied only after shopping, observing, and by making comparisons. Probably not more than 10% or 15% of all the sales made in retail stores are the result of real salesmanship by retail salespeople. Obviously, no salesmanship is required for the first and largest group. A proper display of merchandise and a willingness and ability on the part of salespeople to assist customers is all that is necessary in the second class. Salesmanship begins with the second group but has its most important sphere of action with the third group of shoppers who call at the store but have no definite idea of making purchases.



There has been a marked change during the past generation in the attitude of retail store managers toward selling and retail salesmanship. There has been a well-marked tendency to place less and less reliance on salespeople and the arts of salesmanship and more on having the right merchandise, good advertising, and proper display. The pressure and insistence that once characterized retail sales work have largely disappeared in modern establishments. It has been learned that when sales pressure is exercised it only drives customers to competitors. The key to present merchandising is to find out what customers want and then to supply it to them.

**The Principal Duty of Retail Salespeople Is to Render Courteous, Intelligent Service.**—The gradual recognition by retailers that the retail store must study and serve its customers and that high-pressure selling methods won't work has completely changed the objects of both work and training for retail salespeople. Retail salesmanship has, as already indicated, still a definite place in the work of retail selling, but the more important function of retail salespeople in relation to customers is to render courteous and intelligent service, and the way in which this service is rendered is fully as important to the customer as the merchandise purchased. Selling, then, involves not only satisfactory goods but also satisfactory help from salespeople.

The attitude of salespeople toward their customers, their merchandise and their work is, therefore, highly important. It may be possible for a manual laborer or a clerical worker to carry on with a fair degree of efficiency in a spirit of disagreeable temper, of anger, or of other negative emotions, but not so the salesperson. Optimism, enthusiasm, cheerfulness, and eagerness to serve, are fundamental essentials of the art. This being true, it is obvious that a retail store should employ salespeople with naturally sunny dispositions. It must provide working conditions conducive to pleasure and a super-

vision of the type to produce enthusiasm. The grouchy department head or supervisor of salespeople cuts off at least 25% and perhaps 50% of the selling efficiency of his staff. Were salesmanship more important in a retail store, this fact would be more obvious to retail store managers and more definite steps taken to secure supervision carried on in the proper spirit.

**What Customers Expect from Salespeople.**—To approach the problem of retail salesmanship and service from the standpoint of the customer, it is possible to outline a number of conditions which customers generally like and expect from salespeople, and, likewise, a number of conditions which most customers do not like.

Among the qualities, almost universally desired by customers from retail salespeople, are a smile of welcome, interest, alertness, and a willingness to help promptly, unfailing courtesy and attentiveness, a personal interest in the likes and dislikes of customers, ability to answer questions about the goods and their uses and, finally, truthfulness. The help rendered should be of the same quality whether the purchase be large or small.

Most customers appreciate being told about new merchandise, about goods that will help them to secure better service from the merchandise already purchased, if such suggestions are not overdone. Most customers appreciate the kind of help that will save their time and energy.

It is possible to be even more specific about what customers do not like in retail salespeople. In a survey made by the School of Business Administration of the University of Oregon on why customers stop trading at retail stores, a large number of questionnaires were sent out and very comprehensive replies received.

First in the list of causes of dissatisfaction to customers was delay in service. The dislike for inattention and delay is universal. It would be valuable for every busy retail store to



know how much time is lost by customers waiting to be served, what the range of such waiting time may be at various periods during the day and the mental effect on customers who suffer these delays.

Closely related to delay in service and yet expressed as another reason for dissatisfaction with retail service, came indifference of salespeople. Errors of various kinds such as in addition, change making, wrong merchandise, disregard of instructions, and so on, ranked third. Haughtiness or superciliousness of salespeople ranked fourth. Attempted substitution accounted for a large percentage of dissatisfaction. Overinsistence, too much sales pressure, and too much conversation ranked high. Misrepresentation, bluffing, and dishonesty came next, and tricky methods and policies, which may have been the fault of the retail store management rather than of salespeople, followed. Ignorance of goods, inability to answer questions about them or to demonstrate their uses, quite surprisingly, came last in this list.

In addition to the foregoing it is possible to enumerate a number of other practices and personal qualities which are objectionable to many customers and are certainly never helpful. Among these may be listed grouping of salespeople and conversation about personal matters when there are customers waiting, loud, shrill voices, flashy dress, gum chewing, joking, giggling, the use of terms of endearment and calling fellow employees as well as customers by their first names and, finally, soiled clothing, dirty hands, bad breath, and other similar matters of personal cleanliness.

From the foregoing it will be seen that the service rendered by a retail salesperson is a most important thing to the customer. Practically all of the points mentioned are involved in common courtesy and attentiveness to the customer's wishes. The arts of selling, as apart from salesmanship, consist in rendering such services in the way that customers desire them.

**Suggestions on How to Secure a High Standard of Retail Selling.**—Most of the large retail stores, including the chain store systems, have developed standards on selling practices to a high degree, beginning with general instructions to beginners and passing to detailed directions on what is desired and how the various operations shall be performed. These standard practices are usually reduced to writing or printing and are known as service manuals or rule books. The following are some of the typical matters presented in retail service manuals.

a. Advice to Beginners. Inform yourself as quickly as possible as to the exact work you are to do, the stocks of goods you are supposed to sell, their names, where they are kept, their qualities, sizes, pieces, what they are used for, etc.

Do not hesitate to ask for information whenever you need it.

You will be corrected if you are in error. Accept these corrections in good spirit and with the resolve to profit thereby.

Learn the working rules of the house, such as:

Hours for business.
Use of time clocks.
What to do in case of unavoidable absence.
Leaving your department.
When you may make personal purchases.

b. Learn Store System. Learn to make out the necessary sales forms on checks for all possible conditions of selling, such as the following:

1. Cash sale to be taken.
2. Cash sale to be delivered.
3. Charge sale to be taken.
4. Charge sale to be delivered.
5. Charge sale to be charged to one address and sent to another.
6. C. O. D. sales.
7. Even exchange.
8. Uneven exchange.
9. "Will-call" sale.
10. Discount sale.
11. Credit to cover returns.
12. Special delivery sale.



13. Employee's purchase.
14. Part cash, part charge.
15. Inclosed packages.
16. Transfers.
17. Future delivery.
18. Memorandum charge.

Write plainly. Your sales checks have to be read by many others. If your writing is not easily legible mistakes are certain to occur.

c. Retail Store Etiquette. Employees are forbidden to use tobacco and liquor in all forms during working hours. Profanity, whistling, loud calling, talking across aisles, congregating, gossiping, entertaining visitors during business hours, and so on, are all forbidden. They interfere with dignified, courteous service and cannot be permitted. Employees are expected to be courteous to all; not only customers but to fellow employees as well. A helpful spirit of cooperation is necessary to the highest store efficiency.

Salespeople are expected to dress conservatively and in good, simple taste.

Customers like to deal with salespeople who are neat and clean in person. Take good care of your hair, skin, and nails, and keep your clothing clean.

In talking to customers, remember that you represent the store. You are the store. But use the word "we" rather than "I," and say "you" more frequently than "we."

In speaking of men's goods, refer to them as "men's goods," not as "gents' goods."

Always use the word "madam" instead of "lady," in addressing women who visit the store, when you do not know their names. Use their names if you know them.

Saleswomen, in waiting upon other women, should never use the expression, "My dear," or anything similar to it.

The word "flat" as applied to an apartment house is not pleasing. Use the word "apartment" instead.

Instead of saying "Charge or cash?" when closing the sale, it is preferable to say, "Have you an account?" assuming that otherwise the cash will be presented.

Employees are expected to maintain a high standard of conduct outside of business as well as in. To succeed in the long run you must, of your own accord, choose respectable, moral associates and keep good habits.

d. Study Your Stock. Be sure that you know in detail what you have and where it is so that you can get it promptly. Watch your stock so as to prevent running out. Keep close track of calls for goods not kept so that they may be ordered if calls are numerous.

Prevent accumulations of dead stock; when possible sell the oldest article first. Keep all of the stock on the move.

Keep your stock in good condition and in good order. Go over it whenever possible, putting it in first-class order. Use your spare time in looking after your stock.

e. Study Your Merchandise. Learn its names, its history, and where it comes from. In addition to the names of the article, learn the names of its parts, the name of the styles, the colors, and so on.

Find out what it is made of and what its qualities are.

Learn all about its uses. Be able to tell why it is worth the price.

The customer is entitled to know what she is buying and you must be able to tell her.

f. How to Serve Customers. Your position and the very existence of the store both depend upon customers. The real boss in every store is the customer.

Come forward and meet your customers promptly. If engaged in work with other customers, show by recognition, salutation, a nod and smile that you know the prospective customer is waiting. Endeavor to keep her until you are at liberty to wait on her.

Show a real, personal interest in and friendliness to your customer. Look the customer straight in the eye in a kindly way.

Be on the alert and don't make it necessary for a customer to ask you to wait on her. Say politely, "Madam, may I help you?" Wait expectantly. After you have learned the customer's wishes, move promptly to carry them out.

Other suitable forms of address are, "Have you been served?" or simply "Good morning" or "Good afternoon." If the customer is already interested in merchandise a good approach is to come up and start helping in selections in an unobtrusive and quiet way. Say little at the start, wait for the customer to express wishes. Assume that the customer is interested in goods. That is why she is in the store. When a customer has indicated her interest start showing goods at once. Ask very few questions and never what price the customer wishes to pay. When in doubt as to qualities and prices in which the customer may be interested try medium lines. Watch for the customer's reactions.

Learn to size up customers quickly but unobtrusively. This means



to discover by careful, quick observation and by a sort of intuition, what the customer's mood may be and how he or she may desire to be served, as well as the class or quality and price of goods wanted. The factors taken into consideration by skilful salespeople in sizing up customers include the dress and appearance, the manner, the speech and tone of voice, the degree of confidence, of action, and the indications of personal taste. There is no finer art in the work of retail selling than the ability of salespeople to adapt themselves and their service to the varying classes of customers who come to them. There are no more pathetic instances of errors of retail service than those made by retail salespeople who were mistaken in their size-up.

**Classes of Customers.**—Teachers of retail salesmanship have found it advantageous to attempt classification of customers by types and to determine the kind of service needed for each. Thus the following is a typical classification:

a. Nervous types or customers who are tired and cross, unreasonable, excitable, or impatient. The salesperson will need patience, consideration, good temper, a quiet manner, and assurance in handling them.

b. Disagreeable types. For customers who are skeptical, inquisitive, talkative, patronizing or even insulting, the salesperson needs self-control, dignity, and a candid manner.

c. Critical types. For customers who are of the cautious, bargain-hunting type, silent, critical, indifferent, the salesperson needs to have implicit faith in his or her goods, knowledge of values, convincing manner, perseverance, and reasons for every point.

d. Dependent types. Many customers who come to retail stores are timid, sensitive, and undecided. Among these will be found old people, children, foreigners who do not speak the language readily and do not understand American customs, men who are buying for women, and women who are buying for men. These types need sympathy, helpfulness, and ability to give decided opinions.

e. Common sense types. To customers who are pleasant but decided and who know what they want, the salesperson owes efficient service and appreciation. Pleasant customers expect a like attitude from the salesperson; the decided customer knows what she wants and does not ask for opinions. When questions are asked intelligent answers are appreciated, and if the salesperson lacks the knowledge desired a frank answer to that effect is appreciated.

**Demonstration of the Goods.—**

Salespeople should start gradually by giving the sales point that may prove strongest with the customer. Begin, if possible, with something quite like that which the customer has already used. Abrupt changes in any class of goods are usually not preferred. Work gradually toward different and newer goods. If the customer seems interested, go ahead. If the customer is not interested, try some new point or another article of merchandise. Be sincere in manner as well as in mind. Be positive but not domineering. Be forceful but tactful. Show how the goods are used and how they will look when in use. Handle your goods appreciatively. That suggests appreciation to your customer.

Show enough goods to demonstrate that you are willing to work hard to please, but don't confuse the customer by too great variety. Start by showing considerable variety, then eliminate those articles in which there is no interest. Get the goods into the hands of the customer if possible. Let the customer help herself in making selections and decisions.

When the customer has decided against an article put it promptly away. Work from customer's viewpoint as quickly as you have discovered what it is. Be helpful. Put the emphasis on trying to find what is going to satisfy the customer.

Don't overtalk. Get the customer's viewpoint. Be a good listener. Watch the customer's expressions. Be guided thereby.

Don't misrepresent.

Don't sell an article that you are not sure will give the customer full satisfaction.

Study the expression of your customer.

Close the sale by repeating the point in which the customer seemed most pleased. Emphasize the advantages the customer will enjoy from owning the article. Make it easy to say "Yes" and difficult to say "No." Be sure that the customer is satisfied before leaving. Win the customer for the store.

Thank every customer.

Be prepared to answer objections by knowing in advance what they are likely to be. Answer by appearing to agree. Never argue. Don't dispute. Remember "the customer is always right."

**Common Objections Heard in Retail Stores.**—The specialty salesman in fields of selling, outside of a retail store, plans a sales demonstration and a presentation of ideas intended to fit into the customer's wants so closely as to secure a completely satisfactory sale. The possibility of objections arising is given exceedingly careful attention in such selling. The sales presentation is usually planned so as to answer objections before they are raised or to avoid them entirely. A skilful life insurance salesman, for example, has a carefully considered air-tight, holeproof answer to almost every objection that can be raised by a prospect.



It is apparently not possible to work out the problem of objections so systematically in retail selling as it is in specialty selling. However, skilful salespeople are able to meet a high percentage of these objections in a successful way and without arousing a feeling among customers that there is too much sales pressure.

Among the objections frequently heard in retail stores are the following:

"I haven't time to buy today."
"I wish to look elsewhere."
"I can get it cheaper at Brown's."
"I will ask a friend to come in and see it."
"It is too high in price."
"It is more than I expected to pay."
"I have not enough money with me today."
"I'll wait until the goods are marked down."
"I want my husband to see it."
"I won't decide today."
"I am too tired to know what I want today."
"It is not the same as I want."
"I must think it over."
"It doesn't seem to fit well."
"The new styles seem so queer."
"I can't see with these glasses."
"I will buy at Brown's. I have a charge account there."
"I want something nicer."
"I don't want to pay for alterations."

Answers to these objections must vary according to the individual conditions. Only a few suggestions can be offered here.

"I haven't time to buy today," may in some cases be met by the suggestion that the desired article may be gone tomorrow. It may, in some cases, be better to ask for a very limited time, say five minutes, or three minutes, in which to show the goods without any obligation to buy. The salesperson may say, "It will only take three minutes to see these goods and then you can decide whether you want to buy them or not at your leisure."

"I can't afford it," if a sincere and correct objection, should be met by showing the customer a lower-priced article.

"The price is too high," may be met by showing lower-priced goods but at the same time by giving in detail the reasons for the difference in price.

"I can get it for less," may best be met by urging the exclusive features of the merchandise, if it has any. To meet this situation the salespeople should neither deny nor argue the customer's statement. Reiterate the main selling points of the merchandise and emphasize any special service that the store may have to offer.

**Suggestion Selling.**—One of the ways in which the retail salesperson can exercise real salesmanship is by suggestion selling. Most of the customers who come to the department, as already indicated, either have their minds definitely made up as to what they desire or have some idea of what is wanted and merely wish to make comparisons and come to a conclusion after seeing the goods. These two classes of customers merely require good service to effect sales. Salesmanship begins by suggesting or showing such customers other goods which they had not come to buy.

Suggestion selling when effectively carried on is as desirable to the customers as it is to the store. Proper suggestion



selling saves the customer's time, energy, and money. It calls attention to the things that the customer may not otherwise think of or know of and produces an increased degree of satisfaction among customers.

Suggestion selling increases the average sale of the department and of the store and provides an outlet for increased efficiency of salespeople. Suggestion selling is constructive selling in every sense of the word, but it must be carried on properly as a fine art, for there are grave dangers of overdoing it and of losing the goodwill of customers.

There are several classes of suggestion selling among which may be mentioned:

1. "Companion sales" in which, when a customer buys some article, the suggestion of some necessary adjunct, some article that will increase the usefulness of the article purchased, is mentioned. In the drug store, when a sale is made of toothpaste the drug salesman suggests a toothbrush; when razor blades are sold, shaving cream is suggested; when cold cream is sold, a vanishing cream is suggested. In men's furnishings, when collars are sold, ties or shirts are suggested; when socks are sold, garters are suggested; when shoes are sold, shoe trees are suggested. Similarly, other logical combinations are possible in every type of retail store and department.

2. Suggestion selling may also be aimed at securing a larger sale of the same goods as, for example, by inducing the sale of more than one item or of a larger package. The technique of "concentration selling," as it is called, is as follows:

When the customer asks for an article, the salesperson starts for it and at the same time asks, "How many?" Similarly, when a customer asks for an article put up in different quantities, a sample of each may be set before the customer and the advantages of buying the larger quantity pointed out. If the store makes a special price for quantity such as 10 cents each or 3 for 25 cents, 40 cents each, or 3 for $1, this point may be brought out. In some instances the advantage of buy-

ing two instead of one may be urged on the basis of saving of time, of energy, or of increased wear or use.

3. Another form of suggestion selling is calling attention to daily or weekly "specials," articles offered at a special price, articles advertised, articles put up under the store's own brand, or new goods that have just come in, new styles, and so on.

4. One of the objects of suggestion selling is to induce a higher average sale by selling higher-priced rather than lower-priced goods. This is called "trading up." As many merchandise men have pointed out, customers are frequently willing and glad to buy higher-priced goods if the advantages of such goods are indicated to them. When properly handled, trading up is in every way advantageous, but like other forms of suggestion selling, if not properly handled, becomes a dangerous procedure.

5. Another form of suggestion selling is to sell substitute articles when the customer asks for goods which the store may not have. As already indicated, it is impossible for any retail store, no matter what its size, to carry all kinds of goods that consumers may ask for. A certain amount of substitution selling, if carried out honestly, is absolutely necessary both from the standpoint of the store and the customer. The national advertiser sometimes feels that the substitution selling is an unmitigated evil since, through his advertising, he may have created a desire in a consumer's mind, only to have that desire translated into a sale of competitive goods. The details of this discussion cannot be presented here. The fact remains that each store must, as best it can, present such goods as it has for its customers' approval and acceptance.

In small retail stores where salespeople sell in all parts of the store, suggestion selling may be developed to a high degree. In this day of trends in color harmonies and ensembles, in department stores where salespeople must stay in their own sections, suggestion selling can be effected by organized methods, by securing references from salespeople to merchandise in other departments. Such references are usually to goods advertised for the day, to goods displayed in the windows, or to special sales conducted in individual departments.



The effectiveness of department store suggestion selling has been enhanced in some stores by the use of introduction cards or even personal cards of salespeople handed to prospective customers with the suggestion to call on other salespeople or other departments, using the card as a means of securing prompt attention. Suggestion selling needs such special promotion in order to make it effective in any type of retail store.

Suggestion selling offers many difficulties of standardization, since it depends to a great extent upon the individual initiative and ingenuity of the salesperson. Special supervision is required. Some retail stores have gone so far as to establish a special training director or promotion head to work out plans of suggestion selling and to see that they are carried into effect by the sales organization.

**Use of the Telephone.—**

It is just as important to make a good impression over the telephone as it is when face to face with the customer. If anything, it is more important.

Speak clearly and distinctly directly into the telephone. Give your whole attention to the telephone message. Apologize to your customer over the wire if interrupted. Be patient. When answering the telephone, give the name of your department first and then your name, as for example, "This is the grocery department, Mr. Smith speaking." This saves time.

Get the customer's telephone number, name, and address as soon as you have determined that it is a call for service. Be sure that these details are accurate.

Never tell the customer over the wire that you are busy or that any one else in the store is too busy to attend. Telephone calls should be answered promptly. The one who answers should do so with the most pleasant voice possible. "The voice with the smile wins."

See that every detail of service is carried out perfectly on tele-

phone orders. In no other way can the customer be saved for the store.

There is a new art in telephone selling. Many classes of retail stores are securing large volumes of sales by clever use of the telephone.

### General Suggestions to Salespeople.—

Discover and remember each customer's individual taste and you will be able to give quicker and better service. By being polite, prompt,

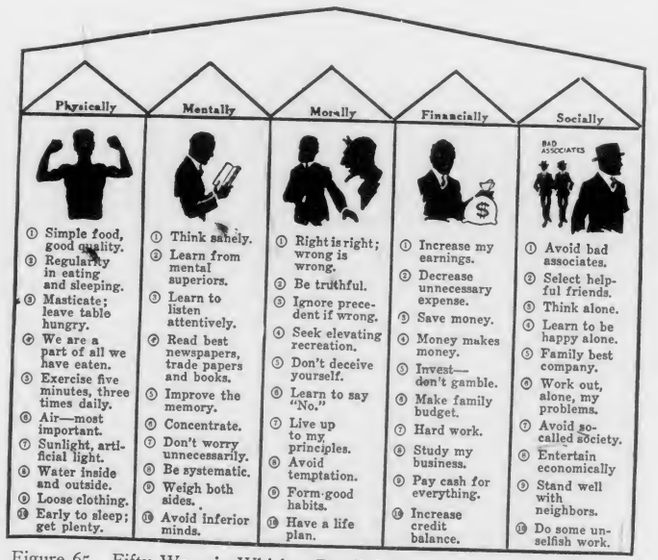


Figure 65. Fifty Ways in Which a Retail Salesman Can Improve Himself
Prepared by and published with the permission of the National Cash Register Co., Dayton, Ohio.

and cheerful you grow—and no one can keep you from growing but yourself.

Serve each customer so promptly, pleasantly, and politely that she will come back again and recommend the store to her friends.

In every transaction with a customer, you represent the firm,



and her opinion of the store and its service is based largely on the good or bad impression you make.

The best helps to advancement are to be interested in your work and to remember always that your employer's best interests are your own.

Study the store's advertising. The advertising is the voice of the store. It not only tells what goods are on sale and helps to sell, but it also tells the store's policies.

An excellent summary of the requirements of retail selling has been prepared by the National Cash Register Company in outline form. This summary with its many useful points is presented herewith. (See Figure 65.)

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# CHAPTER XV

## RETAIL PRICES AND PRICE MAKING

The aim of the retailer, as well as of all others who engage in business, is to realize a profit from his operations. Prices, by and large, are fixed at the point that will bring the highest net return. In other words, retail dealers charge "what the traffic will bear." But while the retailer places the price mark on the goods, it would not be correct to assume that he makes the price, except in so far as he interprets correctly all of the influences affecting values and makes it in accordance with those influences. Price, as we shall see, is the resultant of many forces operating in various ways and with various degrees of strength.

**Factors of Retail Price.**—Chief among the forces or factors that influence retail prices are the costs of the goods, the costs of selling, the desirability of the goods from the standpoint of the consumer, the competition of other retailers, custom or habit, personal salesmanship, and an ethical element or tendency among both buyers and sellers to fair play.

**a. Costs.**—The costs of the goods and the costs of selling set the lower limit below which the selling price may not fall without loss to the store. However severe the competition may be, whatever the policies of selling adopted, the retailer must get back all of his costs or fail in business. For purposes of clearance or advertising, some goods may be sold below the cost point, but deficits so incurred must be made up in the general sales levels. It is obvious, then, that the retailer should know his costs accurately, not only for the store as a whole but also by departments and, if possible, even by lines

and items. An estimate of costs, if made too high, may lead him to pass up profitable lines of goods or in cases of keen competition to think that all is over with him before he is really in danger. On the other hand, costs estimated lower than they really are may lead to a feeling of security where danger really exists. There are still a great many retailers who do not know accurately what their costs are either for the store as a whole or by departments, and who operate their businesses upon guesses or estimates that are in many instances very far from correct. Many examples could be cited of merchants who have believed that they were making good, safe margins of profit but who were really moving toward bankruptcy because of too low estimates of costs. A large proportion of failures in retail stores are, no doubt, due to this cause. It is certain that a very large proportion of the retail merchants who are thrown into bankruptcy have very imperfect systems or records of their business.

Costs are not the only considerations in fixing prices. It is even held by many that price fixing based upon costs would be neither desirable nor fair in all cases. When the producer has erred and has expended twice as much in making an article as he should, or when the dealer has mistakenly paid more for an article than others could obtain it for, it would be an injustice to pass this burden of errors on to the consumers Under free competition it could not be so passed on. Each factor in distribution should stand the losses due to his own mistaken judgment or other similar mistakes. On the other hand, if the buyer of a store, or the producer before him, were able to bring into the market a lot of goods at a much lower figure than normal costs of production and distribution, the consumer has not thereby earned any opportunity to enjoy those goods at cost. The surplus thus produced is the legitimate profit or reward of the producer or of the buyer for his special efficiency. The dealer uses his knowledge of costs only in determining the lower limit of profitable selling. The exact



point at which the price shall be set on a particular article must be determined by other considerations. Given certain retail price lines, the costs of selling serve merely as a guide as to what the upper limits of the retailers' purchase prices must be. Knowing his costs, the retailer can, to a large extent, eliminate unprofitable lines from his stock. Thus, while serving only as a guide, the knowledge of costs is a most important thing to the retailer who wishes to price his goods correctly.

**b. Desirability of the Article.**—The desirability of an article to the customer is the most important factor in price fixing. People come to stores because they want goods, and the strength of their wants helps to determine the price they will pay for them. It may be the usefulness, the beauty, the style, the uniqueness, or any one of a hundred qualities that appeals to the customer. Whatever it is, this desire causes the customer to conclude to give up his money and whatever other goods his money might have bought, in order to possess these particular goods.

The strength of demand measured by the amount that customers are willing to pay for any article is dependent upon four things:

1. The strength of the customer's desire for it.
2. The possession of money or means to buy it.
3. The relative strength of the desire for this article compared with the desires the customer may have for other articles that his money or means can purchase for him.
4. The knowledge of what this article or similar articles can be obtained for elsewhere.

Intensity of Desire. No goods could be sold unless customers desired them. The basis of all sales is desire plus purchasing power. All human beings have a multitude of desires, more than most of them can ever hope to satisfy. The best that any individual with limited purchasing power

can do is to satisfy one desire at a time in something like the order of intensity. The desire for any particular article in the customer's mind nearly always has competing desires for other articles, possibly widely different in nature. The price that will be paid measures the difference in intensity in demand between the purchased article and others much wanted. That is to say, in buying any article, a person does not simply give up his money, but he gives up the opportunity to get such other goods as his money would buy. Economists have called this opportunity cost. It is clear that the price of an article must not be placed above the point at which customers will prefer to spend their money for other goods, or there will be no sales of this article.

Increasing Desire by Salesmanship and Advertising. The work of the retailer and his salespeople, and of the advertising devoted to the goods, must not be overlooked in discussing the strength of consumer demand. It is a well-established principle of psychology that we can desire only that which we know something about, and the thing for which desire is the strongest is the central thing in the mind. Strong human wants, such as that for food, when hunger presses, force themselves into the center of attention. When the hunger for food is satisfied other hungers present themselves. There is apparently no end to the succession of hungers and wants in living human beings. A person tends to value a thing in proportion to his knowledge of it, and of its practical significance to him. Salesmanship consists in teaching customers about the goods, their qualities, their uses, and the satisfactions they provide. In this way concepts concerning the goods are built up in the customers' minds, and wants for them are developed and strengthened. Not only are demands for new goods thus stimulated but customers are educated up to a willingness to pay more for articles than they otherwise would. Good salesmanship increases the preexistent desire for an article. This desire is sharpened to the point where it dominates other desires. The salesman's knowledge of his goods, his way of telling what the customer wants to know, his faith in his goods, and his "nerve" in asking a price, go far toward stimulating and fixing a desire for the article at the price named.



**c. Competition.**—In addition to the competition of desires for various goods within the individual's own mind, there is the familiar competition of the world of business, the competition of many dealers offering the same or similar articles. In times past, the most effective competition among retailers was among those whose stores were located close to each other, but during recent years, particularly in the smaller towns and the country, the competition of the big stores in the large cities and the mail order houses has pushed closely up to front rank. Aside from cut-throat competition, whose purpose it is to kill off or to drive trade rivals entirely out of business, competition usually results in forcing prices down close to levels that merely cover the cost of goods and of operations with possibilities of net profit for the more efficient dealers only. Price levels tend to become fixed at points above which no dealer can sell very many goods nor continue his sales for very long.

When customers are ignorant of competitive prices on certain goods, a retailer may sometimes keep up his prices for a time. But such selling above other dealers' prices is certain to provoke ill-will when discovered, and it is worth noting that this feeling is likely to vary inversely as the value of the article. Nothing seems so irritating to the average customer as to find out that he has been charged 15 cents for an article that other dealers are selling for 12 cents, while an overcharge of $5 or $10 on a $75 coat may create but little resentment. Both, however, provoke ill-will. Such details need the careful attention of the retailer.

**d. Habit and Custom.**—The rule of custom is strong in the retail business. Customary prices prevail in many lines. It is difficult to sell goods for more than these prices, and in case of rising costs, the emergency is met more frequently by reducing quality than by increasing prices. On the other hand, most customers do not expect to buy goods for less than the customary prices, hence when costs of production go down and competition among dealers is not particularly keen, the old selling prices yielding enlarged profits are often maintained for a considerable length of time.

Custom is also an important factor in determining what prices will be paid by consumers. Goods that have always been bought for one dollar tend to establish themselves in the customer's mind as worth about one dollar. Even when changes in income take place, customers for one-dollar goods do not, when their incomes go up, as a rule change quickly to higher-priced goods and when their income goes down do not immediately change to lower-priced goods. This slowness to change depends upon many conditions, such as the age, and still more the social position of the customers. Old people tend to change much more slowly than young people, and those who lead rather secluded lives, not mixing very much in social affairs, are also likely to make their changes more slowly than those who are more socially ambitious.

Every price that is repeated tends to become customary. After an article has sold for a considerable length of time at one price, both customers and dealers get into the habit of thinking of it as fixed. Such prices tend to cover all the costs of production and distribution and a minimum of satisfactory net profit. Goods that for any reason are sold at less than costs of production and distribution will ordinarily not be replaced, while goods sold at large net profits will attract competition and result in a reduction of the price. Between these two forces, one tending to limit the supply until prices go up to a satisfactory point, and the other tending to reduce net



profits to a minimum, the price tends to become constant or customary. Customary prices may not be disregarded by the retailer in fixing his prices.

**e. Reputation and Goodwill.**—Easily identified merchandise, known by brand or specific name, that consumers have long found satisfactory, benefits not only from the tendency of habit formation and consequent specialization of prices but also from the possibility of securing a somewhat higher price than can be had for competing products less well-known or more variable in quality. Great numbers of consumers are more than willing to pay somewhat higher prices for the goods which they know, from long use in the past, will give them satisfaction if shopping time and energy may be saved. Similarly, a retail store that has long rendered satisfactory service to its clientele possibly may not be able to secure a higher price for its merchandise but can at least hold its own undisturbed against price-cutting incursions of less stable retail concerns. Goodwill, both as applied to merchandise and to retail institutions, is, so far as prices are concerned, decidedly a stabilizing influence.

**f. Producers' and Distributors' Errors.**—Overproduction in any line upsets the balance of price making based on costs of production and on consumer demand at customary levels. Manufacturers who have produced more goods than can, or will, be taken at prevailing price levels face two alternatives; either they must take a loss such as may result from holding the goods until the period of overproduction has been passed, or they must dispose of them at lower prices which will attract a sufficient number of customers to insure their sale. Formerly, producers in many lines, and dealers as well, with too heavy stocks on their hands for a given season, would store them away for later use. Clearly, this method is impractical in lines of merchandise that are perishable or that are affected by changes in fashion. Since art and style have been more

and more generally applied to consumer goods, fashion has become a more important factor. Hence, wherever there is overproduction, such goods must, as a rule, be sold at greatly reduced prices if they are to be sold at all. Even in the most staple lines of consumer use, the policy of warehousing surplus stocks for future markets has greatly declined.

What is true of overproduction among producers is equally true of overpurchases among distributors. Mistakes in calculation of consumer demand resulting in buying greater quantities than will be taken at customary or normal prices must result in price reductions in order to open up new and wider markets for the disposal of the remainders. Overproduction or overpurchase, therefore, usually means price decline. An important part of the art of merchandising both from the standpoint of the producer and the dealer is a more accurate estimation of the amounts that will be wanted, thereby eliminating market glut.

Underproduction is, of course, as effective in raising prices as overproduction is in reducing prices. When not artificially induced by combinations of producers, underproduction is a rare occurrence in present-day industrial life. Productive efficiency has been raised to levels which easily handle all ordinary wants of consumers. Overproduction, in many lines, is at present very much more of a problem than underproduction. However, there are numerous individual instances every season of the inability of manufacturers and dealers to provide certain goods, particularly items rapidly going into fashion, at a rate sufficiently fast to take care of consumer demand. Thus, on the rising tides of fashion and until productive capacity has been provided, price levels tend to grow stronger. When the demand for any article has reached a stationary level and when sufficient productive capacity has been provided, then the general tendency for prices to decline sets in.

Overproduction and underproduction are relative terms. A



sudden increasing interest of the consuming public due to the rise of a new fashion may easily turn a condition of overproduction into one of underproduction. Similarly, a change in fashion from one line to another may likewise change the conditions for that line of goods from underproduction to overproduction. Important variations in consumers' incomes and standards of living either upward or downward may likewise produce conditions of underproduction or overproduction. Unseasonable or unexpected changes in weather likewise produce conditions of undersupply or oversupply in goods needed to meet these changes. A mild, dry winter means a relatively small demand for rubbers and overshoes. Heavy snowfall and rain induce a heavy demand for such goods. A late spring cuts down the market for summer wearing apparel. A late fall and a mild winter tend to produce conditions of oversupply in overcoats and other winter apparel in spite of the best-laid plans of manufacturers and distributors.

**g. Ethical Influences on Prices.**—In all of the struggles of business for price and profits, cold-blooded as they seem and generally are, there are frequent indications of influences of an ethical nature at work. What seems "right" prevails at times over all other forces. Discussions of "fair prices" involve this higher element. The opposition even of disinterested persons to cut-throat competition is another example. Customers are sometimes willing to pay to some dealers a higher price than goods may be obtained for elsewhere, because they feel that these dealers should be supported in their policies of trade, as for example, in selling goods not made in sweat shops, in dealing in home-produced goods, and so on. The forces of competition are at least modified to a certain extent through such influences as these.

The store manager who is known for his fairness to his employees, for his public spirit, and for his charity, is likely to draw trade even if his prices are somewhat higher than

those of other merchants who have not manifested the same likable qualities.

Another instance of the influence of other than purely selfish motives is found in the customary practice among many dealers, druggists for example, of charging poor people less than the regular rates for prescriptions and medicines. This cannot be explained by saying that they are getting all they can out of these poor people. The star added to the price mark—the indication that less than schedule prices have been charged—found on a large number of the prescriptions in the files of many druggists, indicates that the work of the profession of pharmacy is, after all, in the interests of humanity and that charity has tempered economics in fixing the prices charged people who are beset by pressing difficulties.

The same spirit of fairness is aroused in another connection and, quite selfishly perhaps, but nevertheless related to the phenomena already described. When a man says to himself when marking the price on an article, "I ought to get so much for it," his idea back of the word "ought" has fairness in view, even if it is to himself. The idea is quite different from that which a man has when he says, "I'll get all I can for it!"

Again, when a man is being ruined by competition, he rarely speaks of economic laws, nor does he blame the economic system. He appeals for "fair play." He wants to be defended from "unfair competition." To deal with such cases as his, society has built up entire codes of legal process and precedent on "unfair trade," and to these codes new items are constantly being added. In other words, the ethical is encroaching on the blind, economic, frequently unsocial, forces through the medium of courts and law.

**Attempts to Set "Fair Prices."**—Competition is desired and fostered under the laws of the country. It is believed that under conditions of competition society will be best served. That competition results in great economic wastes no one will



deny. Whether it serves its main purpose better than any other system is a matter of pure speculation, for we know very little about any other method.

Competition that drives price levels below their costs tends to put dealers out of business. When goods are sold to consumers by all concerns competing at prices below costs, then, obviously, the battle is destruction of the resources of the combatants. The destructive price-cutter is to the regular, established retailer what the scab is to the trade unionist. Labor is permitted to organize and to seek higher wages through the efforts of its organization and collective bargaining, but combinations of dealers for the purpose of raising or standardizing prices is under our present system illegal.

There are many reasons for price-cutting but such analysis as has been made of this subject indicates that one of the chief reasons is the lack of knowledge on the part of a price-cutter as to his operating expenses. It is believed that many retailers who do not accurately know their costs of doing business make price-cuts which actually result in losses, but which they may believe are above the profit line. A method of organization among dealers which is not illegal but which tends indirectly to stabilize prices by the elimination of ignorant price-cutting, is the movement to teach all retailers how to compute their costs of doing business. This movement is decidedly furthered by making arrangements for the adoption of uniform accounting systems and comparisons of results. It has been found that very few retailers actually cut their prices below costs when they definitely know what those costs are. Nearly every retailers' association in the country is now serving its members along these lines.

Some trade associations have worked out lists of suggested prices believed to be fair for the kind of services rendered. Professional organizations of physicians and dentists have long had schedules of regular rates or charges. Such schedules

have served merely as suggestions to individual practitioners; nevertheless, they have probably helped to standardize the charges for professional services. Similarly, the National Association of Retail Druggists has long had a schedule of prescription charges. In this schedule careful account is taken of the amounts of time required to fill the various classes of prescriptions, costs of materials, containers, and so on. How generally this schedule, suggested for the use of the members of the association, has been adopted is not known.

**Theory of Retail Price Making.**—Consumer demand is very far from being a constant and dependable thing. Demand varies vastly from individual to individual, and there are wide differences of opinion as to the values of any commodity. Sales of any given article at any specified price and at a particular time can only be made to the number of persons who feel a desire for the article at that time at the price named. The volume of sales will depend upon the number of people who feel the same way about it. The amount of the price is an important consideration. At one price there will be a certain number of purchasers, at a higher price there will be fewer, and at a lower price there will be more.

Take for example a toilet soap whose cost to the dealer, both purchase price and selling expense added together, amounts to 8 cents per bar. At what price should it be sold? The answer will depend upon the possibilities of making sales at different prices. Suppose that the sales for a week at 10, 13, and 15 cents per bar were estimated to amount to 100, 50, and 20 bars respectively. The net results of each pricing system can be most easily traced in the following table:

It is clear from the above that sales made at 13 cents per bar will yield the highest net return. This will, therefore, be selected as the sales price. It should also be noted that sales at 10 cents per bar are relatively more profitable than at 15 cents per bar for the reason that five times as much soap is



TABLE 25. SALES OF TOILET SOAP IN ONE WEEK AT DIFFERENT PRICES

| Selling Price | Total Estimated Sales | Amounts Received | Costs at 8 cents per Bar | Net Profit |
|---|---|---|---|---|
| 10 cents | 100 bars | $10.00 | $8.00 | $2.00 |
| 13 cents | 50 bars | 6.50 | 4.00 | 2.50 |
| 15 cents | 20 bars | 3.00 | 1.60 | 1.40 |

sold at 10 cents as at 15 cents, and the net profit on the sales at 10 cents amounts to more than the net profit on the sales at 15 cents.

**Monopoly Prices vs. Competitive Prices.**—If the dealer has no competition on the sale of the toilet soap mentioned above, then, clearly, he will fix the selling price at the point that will bring him the highest net profit, namely, 13 cents per bar. This is the essence of price making under monopoly conditions, and a price so determined is termed a "monopoly price." Under competition, however, other dealers may offer the same toilet soap at 12 cents or even 10 cents per bar. Any attempt within the same community to obtain 13 cents is likely to prove a failure. Consumers will go to the retail stores that sell this toilet soap for 12 cents or 10 cents. Therefore, the dealer must meet competitive prices which are almost certain to be somewhat less than the monopoly price.

**Class Prices.**—An interesting analysis of consumer demand, elsewhere touched upon, is a tendency of consumers to concentrate purchases of nearly all goods at various price amounts or price lines. Other things being equal, the higher the income the greater the amount that will be paid per item for the various classes of consumer goods. Thus a family may spend 15% of its income on clothing whether the income be $3,000 a year or $1,500 a year. While the number of items of clothing purchased and consumed by the family with the $3,000

income will be greater, the most important distinction in the expenditures for clothing between families with such differences in income will be the differences paid per item. The members of the family with the $3,000 income will purchase goods at approximately twice as high prices as purchased for the members of the family having but $1,500 a year. The same principle holds true for other consumer goods.[1]

The retail store serves its clientele by predetermining at what price lines its customers wish to purchase goods, and then in providing goods at those price lines. Since the demand for these price lines came roughly from different economic classes they have been termed by some economists "class prices." The mechanism of determining price lines was described in the chapter on merchandising. It may be added here, however, that retail institutions catering to mass demand find it most profitable to stock their stores with goods at certain prices known from past experience to represent the amounts that the various economic groups making up their clientele are willing to pay. This is particularly true for the large department store, mail order house, and chain store. Variations from price lines meeting the needs of large classes of people may sometimes be made the successful basis for the merchandising of specialty shops that often thrive best on trade from people who are not easily satisfied by the goods or prices of goods selected for mass appeal.

**Price Setting on Goods of Variable Values.**—Many goods are exceedingly variable in value, particularly those affected by changes in fashion. At least 80% of the goods handled in department stores are subject to markdowns. In other words, in such goods, even when of the same quality, there is no certainty that all purchased at one time can be sold at the price named at first. As soon as a stock of such goods begins to move slowly at the price first set, it is customary to "mark

[1] P. H. Nystrom, Economic Principles of Consumption.



them down." Reduction sales are held, and the goods cleared out in this way.

To illustrate, suppose a concern purchases a lot of fancy silk yard goods at a uniform price at $1.35 per yard. In the lot there may be a great variety of patterns, colors, and shades. Recognizing the fact that demand for such goods as dress silks varies exceedingly with individual purchasers, and that the demand created by fashion is at its best fickle, the concern sets out to make the best of it. Instead of setting a uniform price on the silks at which they hope to sell out the entire lot, they may fix, at first, a price as high as $3 per yard. The announcement of a "new lot of beautiful dress silks in fashionable patterns" will attract some shoppers. As a result some sales will be made.

These first customers will naturally pick out what to them seem the most desirable patterns and colors. Then in order to move another portion of the stock, a "cut" in price is resorted to. "Silks formerly offered at $3 are now being sold at $2.19." This brings a great many more shoppers, and at this point a large part of the goods is probably sold. But there may still remain a collection of odds and ends of the patterns that did not seem very desirable to the two classes of shoppers that have already examined them. These are "reduced" again, perhaps sent to the bargain basement or subway store, to be sold at $1.69. Here the last of the lot is disposed of. This policy seems to succeed better than to offer the entire lot at say $2.25 and hold to that price until all are sold. At the latter price it is not likely that all could be sold and the net result would be considerably less profitable to the concern than when sold in the way indicated. This method of marking up goods and making reductions as necessary seems to be the most effective way to sell some goods, especially those that are subject to changes in fashion. Besides bringing handsome profits to the concern directly, the spectacular cuts in prices, incident to the system described, furnish excitement for the

advertising department and perhaps for the readers of the store's advertising.

**Price Policies: a. One-Price Policy.**—There are certain well-defined policies with reference to retail store prices that need to be mentioned. The first of these is the one-price policy. Stores following this policy mark their goods in plain figures and, at any given time, sell to any or all buyers at the same price. That some buyers might be willing to pay more if they had to, makes no difference. If the price is too high for others no reduction is made. All are treated alike. The one-price policy, as we saw in the historical sketch of retailing, is not new.

Its general adoption, however, is comparatively modern. It first came into use in this country in the big drygoods stores. The organization of such stores as they grew became so complicated that any other policy would have been hard to carry out. The old dicker and bargain plan is still found in some one-line stores of the old-fashioned type.

The old plan of marking goods with secret or code price marks and then selling them to customers for as much above this price as possible has not entirely passed away. There are still houses whose salesmen "size up a customer" when it comes to stating the price, and then ask as much above the minimum set by the concern as they think the customer is likely to pay. In the old days the customer usually parried and made an offer of considerably less. Then the higgling began, the salesman bragging about his goods and the customer pointing out their defects, until finally some compromise was reached, often halfway between the price first asked and that offered. In many instances the salesman received a commission on all sales in which he succeeded in getting more than the minimum decided upon by the concern, some firms splitting such profits evenly with the salesmen. Most of these practices have ceased. But customers as well as retailers could haggle over prices, and



the dicker system required salespeople with considerable skill in handling customers. The one-price policy made it possible to employ people who had had no training in business nor in any phase of buying and selling. To be successful, the one-price policy demanded that the price be fixed at the point at which the goods would sell, and, after a trial, if it was found that customers did not buy, the prices could be revised and reduced. If the prices were made too low, that fact could also be noted and changes made accordingly. Thus the bargaining process was removed from individuals and made a matter of store policy reaching large groups of customers.

**Success of One-Price Policy.**—The one-price policy has been found very successful in this country and very much in accord with the common sentiment of the American people—equality of opportunity (even in buying goods) to all. It has resulted in great economies in time for both buyer and seller. The weak and the ignorant have been placed on a level in purchasing ability with the best. Salesmanship under the one-price policy has been raised from the level of talking about the price, to demonstrating the qualities of what is being offered.

**b. Variable-Price System.**—The system of variable prices has little to commend it except its age. In principle it accords perfectly with the old theory of freedom of the market and free competition. Under this principle the "fittest" bargainer "survived." In times past, when man's wants and varieties of goods were not so numerous as they are now and when there was not the pressure for time that characterizes modern life, there may have been more reason for such a policy than at present. Since there were fewer goods to buy, and fewer varieties of those goods, it must have been easier to exercise wisdom in their selection and purchase, and to know their qualities and values. Customers could then afford to waste hours in jangling and bargaining in the shops over half shillings, whereas now, so far as possible, every development is to-

ward setting man's time free from the economic struggle of life. Hours of labor are cut down, children are forbidden to labor before reaching certain ages, and pensions are given to the aged so that they may retire from labor. In accord with this same tendency, the people of the present are seeking to standardize and to make automatic as much of the economic life as possible, in order to save time for other things. The one-price policy in retail stores seems to be in line with these tendencies.

Finally, there are indications that the public is becoming more generally informed concerning the costs of distribution, and consequently, concerning retailing. Much of the dissatisfaction and criticism of our distributive system has grown up because the public has not fully understood what work has been performed for them by distributors and what the legitimate costs for such services really are. Not knowing the facts, such information as the people have gained concerning the margins of gross profit that retailers get has made it easy to conclude that middlemen are robbers. A clearer knowledge of the necessary costs of any form of distribution must certainly serve to clear up any misconceptions or misunderstandings.

**c. Quantity Prices to Consumers.**—Mention need merely be made of a trade custom widely prevalent of making special prices, even under the one-price policy, to the consumers buying in quantity. In its most elementary form this price policy may be found wherever 10-cent items are sold 3 for 25 cents, or 40-cent items are sold 3 for $1. There is a legitimate economic basis for such quantity reductions. The direct costs of selling quantities are usually no greater than selling units and the consumer purchasing in quantity is entitled to a price consideration commensurate with the savings he helps the store to make.

**d. Cash Prices.**—Mention has been made in the discussions on chain stores and elsewhere of the growing prevalence of



selling goods at retail for cash. The savings of the costs of maintaining credits and of meeting collection expenses and bad debts may be reflected in a reduced price for cash without affecting the retail concern's net profits. This subject is fully discussed elsewhere.

**e. Credit Prices.**—Credit in retail stores takes the form of short-term credits of 30-day or even 15-day periods, of longer credits such as found in agricultural districts, of deferred payments for which special provisions are made extending beyond the regular credit period, and, finally, instalment payment credits. The operation of these various forms of credits has been sufficiently described elsewhere. They are enumerated here for the purpose of summarizing the various price policies employed in retail stores. Retail stores that sell both for cash and credit can ordinarily make no differences in prices to consumers under these two policies. The efforts that have frequently been made to establish differences in prices have apparently all resulted in failure. When, however, unusual credit facilities are offered, such as deferred or long-term credits or instalment payment credits, it has been found practicable to make a difference in price between such forms of sales and sales for cash or short-term credit. The difficulty of explaining differences in prices made for cash and for short-term credits is not encountered in explaining the additions in price made on long-term credits or instalment payment credits. Consumers not only understand these explanations but grant their reasonableness and willingly pay the differences.

**f. Cut Prices.**—In addition to the reductions in prices made for purposes of competition, already considered, markdowns are regularly taken in all classes of retail stores for purposes of clearance not only of overstocks but also of goods found unsuitable for the store's clientele, for goods that have become shopworn or defective, and for odds and ends remain-

ing at the close of a season. Similar reductions are made as a method of advertising. Goods specially priced for this purpose are sometimes called "loss leaders," or more simply "leaders." Retail stores using loss leaders urge that in principle the loss of money in this form is a means of attracting additional trade the same as the expenditure for money in other forms of publicity. The losses incurred on such goods must of necessity be made up by the sale of other goods bearing normal profits.

**g. Price Maintenance.**—The tendency among some retailers to use standard, branded, well-known goods as loss leaders, or as the items upon which competitive cut-price battles are fought, has caused a great deal of concern among manufacturers of such goods. The price-cutting of standard, identifiable, well-known goods, results in increasing the sales resistance toward such products on the part of other dealers affected by the price-cutting. Manufacturers of such goods have found themselves embroiled in continuous arguments with retailers threatening to refuse and actually refusing to handle such goods unless the resale price is fixed and maintained by the manufacturer, thus checking price-cutting. Such trade friction has the effect of slowing up the manufacturer's sales operations and of increasing the costs of selling. In order to cover wide markets, in spite of the opposition of many retailers who would otherwise refrain from handling branded goods, many manufacturers have made enormous expenditures for national and local advertising to induce consumers to demand and insist on having the advertised brands from their dealers. Such advertising is exceedingly expensive.

The subject of price maintenance has been discussed with marked and growing intensity since the latter part of the nineteenth century. Many plans for securing fixed resale prices have been devised. Beginning in 1907 and continuing down to the present, a series of court decisions has been rendered



making all direct methods of price maintenance by agreement between dealers and manufacturers illegal.

In consequence of the legal and judicial attitude toward price maintenance, the discussion has developed considerable bitterness and has resulted in much exaggeration on both sides.

Those who favor price maintenance, both manufacturers and retailers, have urged that a price maintenance policy is necessary to the existence of independent manufacturers and of independent retail stores. Those who have opposed price maintenance have urged that this policy, if permitted by law, would result in intolerable price control by manufacturers.

In a recent report of the Federal Trade Commission, a summary of replies received by that body from manufacturers indicated that 53.3% of all manufacturers questioned held the opinion that dealers' price-cutting on branded goods resulted in reducing the distribution of that product. On the other hand, 7.5% of the replies received indicated an opinion that price-cutting among dealers resulted in increasing the sales volume of the product. The remainder of the replies expressed no definite opinion either way. There were variations in the trends of opinion according to types of goods represented. Among tobacco manufacturers, 60% thought that dealer price-cutting had no effect. Similarly, a majority of the boot and shoe manufacturers held the same view. On the other hand, manufacturers of clocks, silverware, and automobiles generally expressed the opinion that dealer price-cutting resulted in reduced volume.

The present status of the problem of price maintenance (1929) is that manufacturers are not permitted to fix resale prices of goods passing through the regular channels of trade by means of contracts, understandings, or any coercive measures, under the existing law. Price maintenance does exist, however, and is secured through other methods which are not contrary to law, such as the following:

1. A manufacturer who distributes his products through

his own retail outlets may, of course, fix any retail price that he desires on his products.

2. Manufacturers whose products are distributed through agencies and who, therefore, do not relinquish title of them until they are actually sold to consumers may likewise control the resale price.

3. The manufacturers who place their goods in the hands of independent retailers on consignment may arrange for sales to consumers at specified prices.

4. Manufacturers who sell direct to the retail trade and whose representatives regularly visit the retail trade, may suggest resale prices and may even use educational methods in inducing retail dealers to adopt such prices but may not coerce or threaten.

5. If dealers cut the prices on branded goods the manufacturer who sells direct may elect to refuse to sell that dealer further supplies. The right to refuse to sell has been upheld in several Supreme Court decisions. This right of refusal may not be urged in advance, however, in the form of threat to induce the dealer to maintain resale prices. Hence, when the manufacturer believes it necessary to exercise his right to refuse to sell he usually does so upon other technical grounds than the dealer's failure to maintain prices.

Court decisions that have opposed price maintenance have usually dealt with situations that involve other problems. For example, the courts have been called upon to pass on the legality of price maintenance in connection with the patent law and the trade-mark law. In other cases, the questions of price maintenance were tied up with other trade problems, such as threatened or actual monopoly, or market control. No decision has as yet been rendered on the simple and clear case of price maintenance. However, in view of past court decisions, it is likely that under present legislation such a case would receive an adverse decision.

For nearly a score of years, efforts have been made by



those favoring price maintenance to secure legislation for manufacturers to fix resale, retail prices. Hearings have been held repeatedly before Congressional Committees, bringing out both sides of the subject in great detail. Even the Federal Trade Commission has given intense study to the subject and has added its recommendation that such legislation be passed. Beyond the publication of hearings, Congress has so far taken no action.

# CHAPTER XVI

## RETAIL PUBLICITY

The necessity of advertising to modern retailing is elementary. Very few stores of importance have acquired their growth without advertising. The annual expenditures for retail advertising of all kinds must amount to more than half a billion dollars. Out of the estimated total of $600,000,000 expended annually for newspaper advertising, it is believed that at least $400,000,000 comes from retail stores. In addition to newspaper advertising there are, of course, many other varieties of publicity, ranging from window and store displays through direct mail to such miscellaneous forms as billboards, movies, radio and so on.

While there are many retail stores that do but little advertising of any kind, the typically modern store is dependent upon advertising. Department stores could not exist without it. Retail institutions that depend for their trade upon custom from wide areas would quickly decline were it not for advertising.

There is no longer any doubt that people read advertising. In general, consumers are as keen to buy what they want as retailers are to sell them, and whenever advertising has anything to offer which has a real appeal to consumers, if properly presented, the response is effective.

**Functions of Retail Advertising.**—The purpose of advertising is to help to sell goods. Back of increased sales there may, from the standpoint of the business, be several other desirable purposes, such as increased turnover, diminished overhead expenses, and increased net profits. The message carried





by retail store advertising is intended to convey information and a favorable impression leading to increased store patronage.

There is nothing mysterious about the way advertising works. In all of its forms it consists solely of announcement, information, and invitation. The best advertising is the merchandise itself, properly displayed in the store. Merchandise that people want, in adequate stocks, styles, colors, sizes, and at prices that people are willing to pay is the basic reason for trading at any retail store. This form of advertising, however, reaches only those people who come into the store and those who hear about it from others. Similarly, the promptness, reliability, and courtesy with which the store service is performed can be known at first hand only by those who try it.

The display of merchandise within the store in such a way as to permit prospective customers to see it, to handle it if possible, to hear about it, and to gain a favorable impression is the purpose of all retail display arts. Merchandise arranged so as to be accessible to customers, as when shown in open counter displays, is the best possible form of merchandise arrangement.

The next step in advertising beyond the interior of the store is the window display which attracts the attention of people who pass by and who would not otherwise enter the store. This is not only the second step in advertising, it is perhaps the second most important type of advertising.

The third step in retail publicity is to reach out for prospective customers beyond those who may enter the store and see the goods offered there, or who may pass the windows and see the displays. Here is where the use of the printed word, sign, and picture as well as other common forms of publicity comes into effective use.

Advertising can do no more than to announce, and to describe goods and services, and to invite patronage. There are, of course, wide differences in the ways in which this may

be done, and there are likewise wide differences in the effectiveness of use of each method. The descriptions of merchandise, the appeals to the imagination on the satisfactions to be derived therefrom, and the suggestions to take advantage of what the store has to offer, are the foundations upon which the arts of advertising are laid. While it is the purpose of advertising to tell the store's story to the public, this story should be attractively told.

Advertising cannot sell what people do not want. Advertising cannot save lost causes. If people who call at the store will not buy the merchandise on display it is almost certain that they will not buy it as a result of advertising. It is fundamental to the success of advertising that the merchandise offered must be what the people want and the service of the store must be the kind of service that pleases and satisfies. It is futile to advertise if the store's merchandise and service are unsatisfactory. The most important point in a retail store advertising program is to make sure that the store has merchandise such as its customers will want.

**Kinds of Advertising.**—The things that a store may advertise include its:

1. Merchandise
2. Service
3. Reliability and good character
4. Reasonableness of price

Advertising may be classified in accordance with the stress placed upon these points.

1. Merchandise Advertising. Advertising directed to the purpose of increasing the sales of goods by describing their qualities, may be called merchandise advertising. Much retail store advertising is of this form. In some cases it presents and describes items of various kinds from several parts of the store; in other cases, it describes but a single article or a group of articles from a single department.



Merchandise advertising may be directed to the sale of regular staple goods, of fashionable goods, or of goods in seasonal demand. The advertising of regular, staple goods may contain little information about the goods, for there may be very little to say that is new or interesting. Such advertising usually stresses complete assortments, easy shopping, and promptness of service. The advertising of fashion presents information concerning styles and tells the story of each, why it is in fashion and the qualities that make it desirable. Advertising given to seasonal goods reminds the store's customers of the coming changes in seasons and of the desirability of obtaining the needed merchandise in time to meet the demands of the season.

2. Service Advertising. Service advertising is intended to tell consumers about the conveniences and satisfactions offered by the store and its methods of dealing with the public. The promptness of the delivery service, the convenience of charge accounts, the guarantee of merchandise, the liberality of exchanges, and the courtesy of its employees, are factors which are as important to the majority of customers as the quality or the price of the merchandise. Service that is really superior may be effectively and successfully advertised. Service advertising, however, that is based on the hope rather than the reality that the store's employees are always courteous is as certain to fail as is merchandise advertising that is unreliable or untruthful.

3. Institutional Advertising. Service advertising, just mentioned, is essentially institutional advertising, but there are other forms of institutional advertising which call attention to the general character of merchandise carried, the clientele to which the store caters, the store's successes and leadership in promoting fashions, such as being the first to have the new goods, and the store's place in the civic and social life of the community in which it is located.

Many retail store managers, particularly of large stores, feel that institutional advertising is more effective as a means of increasing the sale of goods than either merchandise or service advertising. Several large department stores expend upward of one-fourth or more of their advertising appropriations in distinctly institutional advertising, and the fact that many of these stores are highly successful seems to indicate that this view is correct.

Questions may very properly be raised, however, whether all types of institutional advertising are effective. Institutional advertising stressing the qualities of goods handled, the services performed, the convenience of trading, the efforts made by the store to have merchandise that is in fashion and to keep customers of the store continuously sold, is undoubtedly valuable. Doubt may reasonably be expressed, however, as to whether any large number of people are even mildly interested in the claims made by retail stores for prestige such as being the first to have new merchandise, the first to present novelties, the first to promote fads, and the first in sales volumes and other similar features. It is true that there are some people who like to trade with the leaders. Institutional advertising of this sort probably serves more effectively as food for the vanity of its owners than in attracting or holding substantial trade. This type of advertising is elsewhere, not inappropriately, called "rooster-crow advertising."[1]

4. Price or Bargain Advertising. Finally, there is price or bargain advertising which aims to secure sales on the basis of low prices. Such advertising stresses prices or economy, often by comparing present with former or regular prices or the store's prices with competitor's prices. The price of an article is almost always an important consideration with customers. There is every reason why advertising should state prices. In merchandise advertising, the glowing copy describing the goods may not only build up a highly favorable impression for the goods, but at the same time the feeling that the goods described must be very high-priced. Stating the price proves its reasonableness. If the copy has done its work well, and if the price is really reasonable, the prospective customer must, after reading the advertising, have the impression that the goods offered are a bargain at the price.

[1] Goode & Powell, What About Advertising.



Because price is important to most people, it should probably be given in all merchandise advertising. There are forms of price advertising, however, that offer nothing but price, as in the case of special sales and in the use of leaders, and so on. The difficulties of such merchandising will be discussed in the next chapter, on sales promotion.

There is room as well as need for all four kinds of advertising, namely, to sell merchandise, to acquaint the public with the service of the store, to increase public faith and confidence in the institution as a whole, and to prove the reasonableness of its prices. It is fundamental, however, that all four kinds of advertising must be backed by actual merchandise and actual service such as consumers want.

**Kinds of Advertising Media.**—The media through which the advertising of retail stores is conveyed may now be classified in some detail:

1. Store and Window Display. As already indicated these forms of advertising are the most basic as well as the most effective for most retail stores.

2. Newspaper Advertising. This form of advertising, because of its many advantages as well as its economy is the most widely and most frequently used by larger retail stores. National advertisers use magazines very extensively. Except in a limited way for retail stores of national reputation located in metropolitan centers, chain stores, and mail order houses with national distribution, the use of magazines is impracticable

for retail advertising, and hence will not be discussed in this chapter.

3. Direct Mail. Direct mail advertising includes all forms of material sent directly from the store to individual customers or prospective customers. Direct mail includes letters, cards, circulars, folders, broadsides, booklets, blotters, package inserts, calendars, price lists, catalogs, store papers, and store magazines. Whatever the form of direct mail matter, its purposes are the same as already indicated under the classification of kinds of advertising. Direct mail aims to sell merchandise or service or to develop increased confidence and faith in the institution.

4. Publicity or Store News. Some of the larger department stores as well as chains and mail order houses have found that effective advertising can be secured through control of the news about the store issued to the public. Alterations of old buildings, proposed new buildings, changes in business policies, changes in personnel, and other happenings are matters of news to the newspapers and to the public and, if properly presented, may be as effective in keeping the store before the public as advertising. Without such control such news is likely to be published anyway and may take unpleasant or undesirable forms. The cultivation as well as control of store news for its publicity value is a field of advertising likely to undergo considerable development.

5. Miscellaneous Media. Under this heading may be grouped a number of forms of advertising used extensively by retail stores, such as street car cards, outdoor posters, billboards, electric signs, advertising in programs and directories, the distribution of samples, either at the store or house-to-house, demonstrations of the qualities and uses of goods either at the store or from door to door, movies and radio.



6. Inadequately Used Advertising Opportunities. In addition to the foregoing kinds of advertising media there are other opportunities for advertising largely neglected or inadequately used by most retail stores. Delivery trucks might perhaps be more effectively used as advertising media than they are at the present time. All correspondence, bills, and receipts going out from the store to the public might be made to carry attractive but dignified store publicity. Even the wrapping paper, tags, boxes, twine, or tape used by the store offer opportunity for effective use now largely neglected.

**Trends in Retail Advertising.**—A study of the use of various forms of retail advertising over a period of several years past indicates a growing use of all sorts of media together with growing expenditures for the use of such media. Thus, the first trend to be noted is a *growing expenditure for advertising.*

**Growing Use of Advertising.**—The amount expended for advertising in department stores, as indicated in the reports of the Harvard Bureau of Business Research on operating expenses in department stores, has shown a decided upward tendency. For stores with net annual sales over $1,000,000, the percentage expended for advertising has increased from 2.9% in 1923 to a high percentage of 3.3% in 1927, and 3.2% in 1928. For stores having less than $1,000,000 sales advertising increased from 2% in 1923 to 2.4% in 1928. There has, therefore, been an increase of about 12% in advertising in stores having sales over $1,000,000, and more than 16% in stores having less than $1,000,000.

Information from other retail lines is not so specific, but there are indications that there have been similar trends of increases in advertising in these as well. These increases in advertising expense are undoubtedly in part due to an increasing use of advertising as a means of increasing and maintaining sales volumes.

**Increasing Costs of Advertising.**—The second trend to be noted is the *increasing cost of advertising*. During the period from 1913 to 1920, advertising costs rose in common with all other prices, and since 1920 there has been a gradual upward tendency in advertising rates.

The increased uses of advertising have been accompanied by increased costs of production, labor, materials, and all forms of overhead expenses used in producing advertising media. Consequently, advertising rates have gone steadily upward. The effect has been to make buyers of advertising more cautious and careful in their purchases of advertising space and opportunities than ever before. Newspaper advertising has felt this trend perhaps more than any other commonly used medium. Much antagonism has arisen in certain places over the increases in advertising rates in newspapers, resulting in some cases in an increased use of direct mail, in others in the establishment of cooperative advertising media, such as "Shopping News," elsewhere discussed.

Beginning in 1927, continuing throughout 1928 and the first half of 1929, retail store advertising in newspapers, particularly in the larger centers, showed a marked decline in lineage. Whether this represents a temporary or permanent trend in use of newspaper advertising cannot be determined, but it is nevertheless worth noting as a reaction to high advertising costs.

**Increased Use of New Media.**—A third trend to be noted in retail advertising is the increased interest in and use of certain media such as direct mail, and of cooperative advertising devices such as the "Shopping News" already referred to.

**Increasing National Advertising in Newspapers.**—A fourth trend in newspaper advertising, in a sense counterbalancing the decline in advertising by retailers, is the growth of national advertising in local newspapers. In some instances



such national advertising is conducted independently of local advertising, but in other cases it is tied up with it very closely.

**Newspapers in Metropolitan Centers Offer Zone Advertising.**—Another movement worth careful consideration is the tendency in the larger cities at least to offer advertising circulation by sections or zones; thus, several metropolitan dailies offer the opportunity to advertise in special newspaper sections that are distributed only in certain sections or zones of the city. This method gives to retailers an opportunity to advertise in those sections from which their trade may be drawn, and eliminates the waste of circulation which cannot possibly be attracted to the store. This method likewise lowers the rate of advertising to the retailer in proportion to the circulation purchased and, at the same time, cuts some of the costs of publication of the advertising.

**What Makes Advertising Effective.**—In view of the increased use of advertising and consequent sharpening of competition, as well as of the growing costs of advertising, retailers are forced to give much more careful consideration than ever before to what makes advertising effective. The following suggestions upon this subject have been drawn from the experience of many retail store managers and students of advertising.

The examples and illustrations which are given are largely from newspaper advertising. This is only because newspaper advertising is the commonest form used by retail stores. The principles governing effective advertising are as true and as applicable to other media as to the use of newspapers, so that what is presented here applies to window displays, to direct mail, and to miscellaneous forms of advertising, as well as to newspaper advertising.

1. To Be Effective Advertising Must Attract Attention. If it does not secure attention, whatever other quali-

ties it may have, it is wasted. Advertising art has been developed to a high point of efficiency to catch the eye and the attention. In printed forms of advertising, layout technique aims specifically at attracting attention by arrangement of available advertising space, by the use of type masses and white space, by boxes, rules, and borders, and by the use of effective illustrations, by playing up effective headlines and the name of the store in distinctive type. The size of the advertisement is in itself a means of attracting attention, but unless the use of the space is effective and distinctive, size is not likely to count very much.

2. Advertising Must Be Pleasing. The advertisement must not only attract attention but it must also make sure that the impression is pleasing. An advertisement must look well; it must appear harmonious. Advertising in all of its branches is a fine art. While its aim is to serve the commercial purposes of the store it must also be governed by the principles of art. Pure, uncommercialized art may perhaps sometimes disregard certain features that commercial advertising art must always keep in mind, such as simplicity, orderliness, and ease of comprehension. Overcrowding and overdecoration are fatal to these qualities.

3. Advertising Must Be Interesting to Consumers. Emphasis has already been placed upon the point that advertising to succeed must offer goods or services such as people want. People buy satisfaction, not advertising. Advertising is merely the medium to convey the information about the goods or services that the store has to offer. An effective test of whether advertising will serve this purpose is to determine first whether, with no advertising used at all, the goods will sell solely on display. If goods cannot be sold to prospective customers who see them, then there is little use in attempting to advertise them. No matter how effective the advertising



message, it is likely to lose some of its vitality when transferred from the goods themselves to a medium that depends merely upon description.

4. Advertising Should Be Timely and Seasonable. The offers of merchandise, whether in the store or in advertising outside of the store, should be made to people at the time that they want the merchandise, at the proper season, on the right day of the week, or at the right hour of the day. There are important variations in consumer demand, depending upon time, which retail advertisers must recognize as important factors in the success of the advertising. Seasonableness is obvious but that consumer demand is likely to be stronger on certain days of the week than others is not so commonly understood; that advertising is likely to be more effective at certain times during the day than others is also an important fact to the advertiser. The important question for retail stores is to determine when their customers want to read advertising, whether in the morning or in the evening, on Sundays or weekdays. Effective advertising is that which reaches the consumer at the precise time when he or she may be most concerned in what is offered.

5. Advertising Must Be Informative. It should tell the specific facts that prospective customers desire to know. The omission of important details and the use of general expressions that mean little or nothing are common errors. Advertising of style merchandise, for example, should tell what the style is, whether it is in fashion or not, the specific facts concerning the origin and present status of the fashion, the names and qualities of the materials used, the patterns, the colors, and the sizes in which it may be available and, finally, its specific use. Price is, as has been stated, almost always an important fact. Advertising that omits prices, whatever else may be its purpose, is weakened by that fact.

6. Use of Illustration. When the actual merchandise cannot be shown, advertising is greatly helped by illustrations wherever this may be possible. Truthful pictures, clear in detail, are much more effective than wordy descriptions. Take note and learn from the successes of the illustrated tabloid newspapers.

7. Simplicity and Forcefulness. The presentation of the facts presented in the advertising should be made as simple and as forceful as possible. A straightforward story concerned with human interests goes very much farther than strained or flowery expressions. That which is easy to read is likewise easy to understand and easy to remember.

8. Invite Response. Effective advertising invites and urges action.

9. Consistency of Advertising with Merchandise. Effective advertising is consistent in appearance and tone with the merchandise offered. A smudgy-looking advertisement is very inappropriate for a beautiful shop and a beautiful advertisement is fully as out of keeping for a smudgy-looking shop.

10. Rule of Good Taste. It is a rule of all good advertisers that nothing should be said or done in retail store advertising that is not in good taste. Special care is observed that nothing in it will offend any one.

11. Advertising Must Be Truthful. If its message is not believed, if faith in advertising is broken down, then advertising effort is lost and, in so far as the retail business depends on advertising, the retail business itself will suffer.

Not only must advertising be truthful, it must be believable. There are truths in retail merchandising as elsewhere that are stranger than fiction, and effective advertising avoids that which does not seem reasonable, sensible, and truthful. Advertising experience has shown the inefficacy and error of



meaningless expressions, of general and unqualified descriptions and statements, of insincerity, by implication as well as by direct statement. Accuracy and truthfulness are likewise as essential in illustration as in copy. There are very real difficulties in living up to a standard of absolute honesty in retail advertising. In spite of the best intentions, errors and inaccuracies creep in. Retail merchants who appreciate the significance of truth in advertising are prompt to make good their errors as soon as they are discovered.

12. Departmental Cooperation. Finally, retail advertising to be effective needs teamwork in the store. There must be desirable merchandise and it should be featured in the store's displays. Retail salespeople should not only be familiar with the advertising but be prepared to tell the same story and to supplement where necessary. Retail advertising of goods that are nationally advertised may also be made more effective, if the store's advertising is related to national advertising in such ways as to secure the accumulative effects of both.

**What Shall Be Advertised.**—Individual emphasis has already been placed upon the necessity of advertising only such goods as have an assured demand. New goods which, according to the judgment of experienced merchandisers as well as advertisers, appear to have a favorable chance of consumer acceptance, may be included. Attractive advertising can be planned on the suggestion of new uses for old goods and on improvements in old goods with established demand. The most effective advertising, so far as results are concerned, is on goods that are already selling successfully. Slow-moving merchandise and goods in poor demand may, in some cases, be made popular sellers by price reductions sufficient to attract consumers.

Any survey of the advertising carried on by retail stores throughout the country is certain to reveal an enormous amount of effort expended to tell the public about new goods,

novelties, specialties, new styles, and so on. Is this practice profitable? As already pointed out, advertising serves best when it helps to sell that which is already selling. Advertising new goods certainly involves the hazard of frequent mistakes in selection. Being the first to offer a new style or a new article of merchandise, or being different, is a game retailers play with great zest and at great expense with their competitors. It is not impossible that the attractions of this game account in part for the high cost of retail advertising. The better and more sensible rule would seem to be to push by means of publicity those goods that will give the best results.

In line with this principle most advertising, particularly of expensive types, should be tested for its sales possibilities before undertaken on a large scale. One of the most effective tests is the display of merchandise to be advertised within the store itself or in the windows. If it attracts purchasers it probably has advertising possibilities. If consumers seem uninterested, then its advertising possibilities are limited. There are exceptions to this rule, but not many. Both newspaper advertising and direct mail efforts, particularly the latter, may be tested by preliminary trials which, if found productive, may be followed by substantial advertising drives.

There is another theory of retail advertising, namely, that by the use of effective sales talk and mass display it is possible to awaken interest in goods that might otherwise remain dormant if displayed in ordinary ways or advertised in a small way. It is certain that large sales results have been obtained from advertising plunges of this character. The weakness of this theory of advertising, as usually advanced, is that it is supported by the illustrations of success, and the great many failures that have resulted from such plunges are overlooked or neglected. In the earlier days of advertising when consumers were less sophisticated and curiosity more easily aroused, a full-page announcement and description in



flamboyant terms brought out crowds of people, and under the stimulus of mob psychology, effected great sales. The period of that kind of advertising has largely passed by. People now have better educations, higher standards of living, and greater experience with advertising and advertised goods. They are now generally much more sophisticated than ever before.

Plunging in advertising on new or untried goods in which consumer demand is unknown is a form of reckless gambling. The chances of success are about as good as they are of winning at poker or roulette. Gambling in advertising is the antithesis of scientific retailing. Citations of successes are dishonest unless accompanied by statements of frequency of failures as well.

**How Much to Spend for Advertising.**—By reference to Table 3 in Chapter IV, it will be seen that the amount expended for advertising by retail stores varies considerably. Since the figures presented in that table are but averages, the variation in actual practice is still very much wider. There are, of course, no estimates of expenditures for advertising in terms of planning and labor in preparing displays inside of the stores and windows. Small stores keep no accounts of display work. Usually the outlays of actual money for display purposes are very small. Expenditures, that is, actual outlays, for all forms of advertising, vary from nothing at all to high percentages of sales. While from 1% to 2% or 3% of net sales is a common advertising expenditure, there are instances of successful retail businesses in which the amounts expended for advertising run as high as 10% and even 15% of net sales. Probably the medium rates of expense for advertising as indicated in Table 3 represent safe and sensible amounts for the various types of businesses mentioned.

The amount that can be profitably expended for advertising varies according to the location of the store, its size, and

the lines of merchandise carried. A store having an excellent location is sometimes said to need less advertising than one having a poor location. This is a fallacy. A store with an excellent location must pay a high rent for the privilege of doing business there and, as indicated in the chapter on retail store rentals, must use that location to the fullest extent in order to make it profitable. As a matter of fact, stores with excellent locations may properly spend more money for advertising than stores with poor locations. It is usually easier to attract people to a good location than to a poor one.

Large stores dependent for trade upon customers who come from a wide radius must of necessity expend more for outside advertising than stores with a narrow trade radius or stores located in small communities. Advertising is, in such cases, the means of maintenance and growth of the store's trade.

Certain lines of goods may carry higher advertising expenses more profitably than others. All classes of fashion goods, apparel, home furnishings, jewelry, musical instruments, goods which are bought by consumers on careful consideration, and which require considerable salesmanship usually carry high advertising expenditures, whereas convenience goods, articles of everyday necessity, food products, notions, and household utility goods, carry low advertising expenses. In department stores the expenses for advertising the former usually range from 3% and upwards of net sales, while advertising of the latter classes usually range from 3% downward. How much may be expended for advertising depends upon the results that are secured, and can be secured from such advertising. There is evil in overadvertising as well as loss of opportunity in underadvertising. There should be enough advertising to help sell the goods offered, but bringing more customers to a store than can be properly handled and served, in the long run, is likely to prove bad for the business. Overselling breaks down confidence almost as certainly as dishonesty.



**Effective Use of Display.**—The display of merchandise within the store, as has been emphasized, is the most effective form of advertising. Consequently, every device should be utilized to show as much of the merchandise as possible without creating the impression of overcrowding, irregularity, or disorder. These evils are likely to spoil the desirable effects of a store. Retail fixtures need to be selected with a view to their merchandise display possibilities. The fixtures that permit easy sight and handling of goods are to be preferred to those which keep the merchandise stocks out of view. Open counters with merchandise laid out in an attractive, orderly way permitting easy inspection by passing people is the most successful display device ever invented. Merchandise displays placed on show-cases also serve well in stimulating increased sales. Various tests made by students of display methods in retail stores indicate that well-prepared counter and show-case displays increase the sales of all classes of goods materially. There have been numerous instances in which staple products, enjoying a normal demand over long periods of time, have had their sales stimulated to the extent of from 25% to 50% by the simple device of attractive counter displays.

Merchandise displays may be arranged on open counters, on show-cases, on the shelves and on the ledges. The important thing to bear in mind is that the range of view and especially of interest of most passers-by is limited to a few feet in height, which may be termed the range of vision. Because of this fact and also because of the fact that ledge displays tend to produce the impression of overcrowding, they are not always favored.

The object of display is to stop the prospective customer and invite inspection. When this result is not achieved, either the merchandise itself is wrong or the display methods are at fault, or both. Effective display, just like every other form of advertising, is dependent upon having the right goods.

**The Value of Window Display.**—Window displays have the opportunity of being seen by a great many more people than those who enter the store, and consequently, constitute a highly effective advertising medium when properly used. The purpose of the window display is to attract the attention of these passers-by, to stop them, and to invite them to come into the store.

That the window displays perform this function may be easily proved by the value placed upon windows by retailers and by manufacturers who, very generally, have a keen desire to see their goods displayed in dealers' windows. This desire is often accompanied by the willingness to pay for the privilege of such display. The custom among retailers of charging for the use of their windows for display purposes, particularly on manufacturers' branded goods, seems to be increasing.

In the chapter on rental values in the retail trade, attention was called to the high value of the front part of the store building and particularly of that space occupied by window displays. Practical retailers with small stores are inclined to credit from 1/10 up to as high as 1/2 of the entire first floor rental to the window display space. Perhaps from 1/6 to 1/4 of the total ground floor rent charged to display windows is fairly representative.

Among department stores display windows have a high value. There are metropolitan institutions in which the values of the windows are estimated to be worth from $100,000 to $200,000 or even more per year. Department store windows are in many cases treated as a separate property and their use is charged on a business basis to the departments whose merchandise is given opportunity for display. The value of such display ranges from 3 cents to 10 cents per square foot per day, or from $3 to $50 for entire windows per day.

The value of the display window is dependent upon the number of passers-by. Where the traffic is densest, the window values are highest. Where the traffic is densest, effective display has the opportunity to bring the largest number of people into the store.



Estimates of the values of the show-windows in terms of the number of passers-by, the so-called circulation of show-windows, have been worked out by various individuals and organizations. One of these estimates places a value of $1.11 per 1,000 people passing a window. This must naturally be a very rough estimate but it will serve the purpose of illustration. A show-window passed by 5,000 people in a day's time would therefore be worth $5.55. That would be its fair value if it were to be leased to some outside concern or used to promote the goods of some department within the store. Obviously, the values of display would vary with the character of passers-by and the type of goods displayed.

Illustrations of the values of window display may be had from many sources. The manager of displays in a chain drug organization has stated that an ordinary window of bead necklaces with a sign that read "Choice $.98" sold $1,000 worth a week as long as the display remained in the window. The same chain of drug stores sells 100 tons of breakfast coffee per month and 65,000 coffee percolators per year simply by using window displays. In another store in this chain, 4,000 pairs of ladies' silk stockings were sold in a month through window display.

These are instances of merchandise not usually carried in drug stores and for which consumers would never think of going to drug stores but which drew trade because of window displays. These instances are of metropolitan stores. Similar results on a smaller scale have been obtained and are being obtained in other stores in smaller towns.

**Essentials of Good Display.**—The object, as already indicated, of good advertising is to stop passers-by, to attract their attention, and create a favorable impression. The following are some of the necessary elements to produce these effects:

1. Good lighting is fundamental. Economy in lighting merchandise displays whether within the store or in the windows never pays. Probably one of the principal secrets of chain store success in competition with independent stores, the country over, is in their use of better lighting in their stores and more particularly in their windows. The technical requirements of good lighting have been discussed elsewhere and need not be taken up here.

2. A suitable background is also a necessity for the merchandise display. The background should be suited to the goods shown, its coloring should be neutral or of such character as to enrich rather than to deflate the qualities of the merchandise shown. It is generally believed that window backgrounds should shut off the view of the interior of the store and should also be of such nature as not to show dust or dirt.

3. Cleanliness is highly important. The windows themselves, the backgrounds, and the display floors should be spotless and clean and the goods free from dust or soil. Nothing detracts so promptly and so completely from the value of a window display as lack of scrupulous cleanliness.

4. Window displays should be simple, orderly in arrangement, and easy to inspect. There should be an obvious purpose or point in every display, and wherever possible, it should tell a story.

5. In addition to the observance of the fundamental window display rules already laid down here, such displays should be grouped and arranged so as to secure pleasant, favorable impressions. Every display is in a very real sense a work of art. Its arrangement is subject to the principles of art, and probably the best commercial displays are almost always highly and truly artistic as well.

Artistic display means harmonious grouping of merchandise to secure proper effects of lines, spaces, masses, and colors.

6. Good retail display must be appropriate in the kinds of merchandise offered and timely in their presentation. Displays should be prepared to meet consumer demand at its peaks.



7. Merchandise displays need to be carefully planned so as to be in good taste in every detail. If the merchandise shown is affected by style then it should also be correct in fashion.

8. Displays may always be made more effective by a judicious use of show-cards giving the names of goods, brief descriptions, prices, and so on. Show-cards should be attractive in themselves but not in a manner to detract from attention given to the merchandise. Uniformity of size and design is desirable. They should also be of neutral tone or in colors to harmonize with or to accent the merchandise with which they are used. For window purposes, 11 × 14 inches is an acceptable size that permits easy reading from outside of the window. The lettering should be clear, simple, and highly legible.

**Kinds of Window Displays.**—Window displays may be classified as merchandise displays intended to show and to help sell specific items of merchandise, institutional displays conveying impressions of the qualities of goods handled by the store, demonstration displays indicating processes of construction, origins, uses, and so on, and spectacle displays in which moving objects, machines in motion, Tony Sarg marionettes, and other similar features are utilized. To the foregoing there may also be added, not because of its merchandise value but simply because of the frequency with which they may be found, freak window displays which attract in themselves, as for example, chemical, physical, or zoological windows, that may gather crowds but that have little or no reference to the business conducted inside.

**Merchandise Displays.**—Attention may be called here to some of the details that help to make effective merchandise displays. First of these essential details is that only such goods as have salable possibility are entitled to valuable display space. The salability of the article may depend upon its utility,

its fashionable style, or upon its price. The policy of a retail store should be such as to permit the display department to stop wasting the store's display opportunities by using any goods for display that do not offer at least a favorable prospect of bringing in a profitable sales volume.

The display itself should attempt not only to show the merchandise but by means of show-cards or other methods to identify the merchandise shown by giving its name, its origin if that is significant, its style features, if it is style merchandise, and its uses. The more facts that can be given in the display, provided they are pertinent and simply stated, the better the display.

Concentration is an important means of making a display effective. Concentration may be secured by making an entire display of one kind of goods, in some cases of a single item of merchandise. The 5 and 10 cent stores secure a high degree of concentration of an idea by presenting a display of numerous items, all available at the single price of 5 or 10 cents. In other cases effective concentration can be secured by showing a variety of goods serving the same uses or purposes at different price lines. Effective displays may also be prepared by combining all items making up a seasonable or fashionable ensemble whether in apparel, or in home furnishings.

One of the most important difficulties that arise in connection with the display of merchandise is the possibility that passers-by may gain the impression that the merchandise shown is high-priced, that is, higher in price than it actually may be. One of the effective purposes of merchandise display is to destroy this impression of high price. Since price is almost invariably a factor in consumers' minds and because it is an important, ever-present factor, merchandise displays should show prices either on the merchandise itself or on accompanying show-cards.

Finally, a merchandise display is not complete without an



active suggestion in one form or another inviting the consumer to come into the store to buy and to enjoy the merchandise.

**Frequent Mistakes in Merchandise Displays.**—Some of the common errors made by retail display men which reduce the effectiveness of display methods are such as the following:

1. Attempting to crowd too much merchandise into the display, with the result of giving the appearance of unattractiveness and disorderliness.
2. Combining unrelated goods in such a way as to produce meaningless effects.
3. Using no artistic taste in combining color and line.
4. Showing style goods that are not in fashion, and which do not stand any favorable chance of ever becoming the fashion, and are therefore uninteresting to consumers.
5. Presenting displays, as of apparel, that are not properly fitted, and showing goods inappropriately applied.
6. Poorly prepared displays have a hurried and half-baked appearance which cheapens the effect of the display measurably. It is such small points as attention to line, color, taste, fashion, and appropriateness that help to make displays not only artistic but commercially successful.

**Efficient Use of Newspaper Advertising.**—While most of the suggestions concerning advertising that have already been made have dealt specifically with newspaper advertising, some additional points may be mentioned.

**What Newspapers to Use.**—The relative value of a newspaper as a retail advertising medium depends upon its standing as a newspaper in the community, its strength and influence in the home and family life. A highly important consideration is whether it commands the confidence of its readers. Another factor of importance from an advertising standpoint is the advertising already carried by the paper. A newspaper with well-developed, successful advertising in food products, for

example, is likely to have a reader-following interested in foods beyond that of a paper that has never specialized in grocery store or meat market advertising.

Another consideration of the value of a newspaper for retail advertising purposes is the distribution of its circulation within the community, whether concentrated within the city or spread over suburban and outside territory as well. It is also a matter of importance as to how the circulation was attained and how maintained, whether on the merits of the paper or as a result of contests, premiums, and similar inducements. A newspaper with a stable circulation purchased on its merits may be presumed to have a better standing and reputation among its readers than one whose circulation has been obtained by so-called forced methods.

There are differences in newspapers resulting in differences of classes of readers just as there are differences in clientele for different classes of stores. It is important for a retail store to place its advertising, when there is a possibility of choice, in the newspaper or newspapers which go to the homes of people of the kind who are likewise logical customers of the advertiser.

The appearance of the paper, its typography and press work, and its advertising policies are important, and finally, there is the question of advertising rates and service to advertisers which makes the advertising proposition worthy of consideration.

The suggestion has been made by C. W. Mears in "Newspaper Rate and Circulation Analysis," that newspaper circulation should be classified and weighted in accordance with its value to the advertiser. To illustrate, for the purpose of department or downtown store advertising, circulation should be weighted as follows:

The number of readers in the central trading area should be multiplied by a high factor, for example by seven. The number of readers outside of the central trade zone but inside of the 35-mile area might be multiplied by a factor of two, while



all readers outside of the 35-mile radius should be allowed a weight factor of one. This suggestion for weighting is based on an analysis of the possibilities of trade from these three zones. According to C. W. Mears the chances of getting trade from the people living within easy reach of a store are at least seven times as great as the possibilities from consumers living outside of the 35-mile radius. If this analysis is correct it means that nearby circulation is seven times as valuable per 1,000 readers as that circulation outside of the 35-mile radius. This matter of circulation distribution merits very careful consideration. Mention has already been made of the steps taken by several metropolitan dailies to offer opportunities to retail advertisers to purchase advertising on a zone basis.

**High Cost of Direct Mail Efforts.**—One of the first considerations in connection with the use of direct mail advertising material is its high first cost in comparison with newspaper advertising or window display. Take for illustration the use of a government postal card, which is perhaps the cheapest unit of direct mail that can be selected for consideration. The cost of 1,000 cards is $10, the cost of printing, addressing, and mailing these will amount to about $7.50, or a total of $17.50 for the issue of 1,000 cards.

In comparison with a similar amount of space used in a daily newspaper, the cost of the government postal card is very high. Five column inches, about the same space as there is on a postal card, in a daily newspaper at an advertising rate of $.035 per 1,000 would cost $.175 per 1,000 circulation. The cost of advertising in a newspaper on this basis is, therefore, about 1% of the cost of the direct mail effort. On any basis of comparison of space used and circulation obtained, newspaper advertising is very much cheaper than any form of direct mail effort.

In the case of the use of a letter in direct mail work the expense may be as follows:

| | |
|---|---|
| Paper and envelope | $ 0.01 |
| Printing, addressing, folding | .03 |
| Postage | .02 |
| Total | $ 0.06 |
| Cost per 1,000 | $60.00 |

The same amount of copy can be put into the newspaper advertising at a very much lower cost.

**The Value of Advertising Depends Upon Returns Received.**—While direct mail advertising is more expensive in first cost, the returns received from it when properly used are often so much greater than the returns from other forms of advertising as to make its use highly profitable. Careful study of the possibility of returns is, of course, essential. Wastage in direct mail effort is enormous and there must be many direct mail efforts which, while productive, do not pay for themselves in the returns.

There is the widest possible variation in the returns received from direct mail efforts, and estimates of returns prepared in advance often go very wide of the mark. In department stores the use of direct mail gives returns ranging from as high as 25% of the number of mailings down to literally nothing. A letter and circular issued by a metropolitan store to a selected list of customers of 10,000 names advertising a popular garment at an important price reduction resulted in the sale of nearly 3,000 pieces. In another instance in the same retail store, a direct mail effort sent to 16,000 homes brought only 8 sales. Average returns among retail stores that use considerable direct mail work range from 2% to 5% of the total circularized.

That direct mail must be carefully planned both with reference to the kind of merchandise offered and the list of people to whom the offer is made, as well as the form of the advertising itself may be made more clear by the following illustration. A 2% return in orders on 1,000 letters costing $60 means 20 sales. If the average amount of these sales is only $3 then the



total income from the entire effort will only be $60, precisely the amount expended for the effort. If, on the other hand, the average sale is $12, then the total sales resulting from the effort will amount to $240, and its cost will be 25% of sales.

Experienced direct mail specialists urge that direct mail efforts must bring in sales of not less than five times and an average of ten times the cost of the effort in order to be worth while.

On account of the expensiveness of direct mail and the need for careful construction and planning in general, the profitable use of direct mail depends upon the skilfulness with which it is used. Its most important use is found among retailers with specialized clienteles or whose merchandise is of types requiring specialized selling and in which the units of sale run into high prices. Direct mail advertising succeeds best when issued to carefully selected lists of customers and when used to announce special events, special sales, openings of new departments, offerings of special services, and in the sale of goods of high average unit values such as garments, furs, furniture, jewelry, rugs, and so on.

**Mailing Lists Used.**—The table on page 512 presents the sources of mailing lists most frequently used by retail stores, as determined in a survey of direct mail advertising made among 87 retail dry goods stores in the state of Ohio by the Bureau of Business Research of Ohio State University in 1925. The table indicates the variety of sources of direct mail lists and the number of times each source was mentioned by these stores.

**Importance of Keeping Lists Up to Date.**—Obviously, the value of direct mail lists depends upon their up-to-dateness. People frequently move to new addresses; deaths occur; there are changes in financial condition; all of which alter the effectiveness of the list. Retail stores using direct mail efforts find it necessary to make it the special responsibility of some one in

SOURCES OF DIRECT MAIL ADDRESSES

| | Number of Times Mentioned | | Number of Times Mentioned |
|---|---|---|---|
| Directories | 64 | Friends of employees | 1 |
| Personal contacts | 51 | Country club lists for special articles | 1 |
| Customers purchasing | 48 | Homes and changes of residence for carpet and drapery advertising | 1 |
| School lists | 30 | Nurses | 1 |
| Tax records | 21 | Employee lists | 1 |
| Newspaper notices | 20 | Merchandise credit guide | 1 |
| Club and lodge lists | 16 | Through special demonstration | 1 |
| Representatives in field | 11 | Those redeeming trading stamp books | 1 |
| Office and factory payrolls | 8 | Names from packages sent by mail order house | 1 |
| List of automobile owners | 7 | Shipping lists | 1 |
| Boy Scout lists | 5 | Charge accounts | 1 |
| Music clubs | 2 | | |
| Mail routes | 2 | | |
| Telephone and electric current users | 2 | | |
| Requests to be placed on list for store papers | 2 | | |

the advertising organization to go through the lists frequently, for accuracy, elimination of dead wood, and new names.

**The Movement for Truth in Advertising.**—Dishonesty of claims and exaggeration in advertising serve to increase retail sales in a few instances and for a time, but the result is always a decline in faith among those consumers who have suffered losses from purchases made as a result of false statements. This loss of faith is in turn reflected in a diminished confidence in all kinds of advertising. The advertiser who disregards truth in his advertising, therefore, not only harms his own future business but that of all other advertisers as well. Since modern retailing, as was pointed out at the beginning of this chapter, is in a large measure dependent upon advertising, breaking down the public faith in advertising means the breakdown of the retail business itself. Such a breakdown, if permitted to continue, would be fatal to department stores and other concerns whose business volume is almost entirely dependent upon continuous advertising.

Apart from actual intended dishonesty which undoubtedly occurs altogether too frequently, there is a real difficulty in a



retail store of maintaining a high standard of truth in advertising. Retail store managers with full recognition of the value of very high standards of advertising have found themselves continuously handicapped by conflicts of opinions as to meanings of terms and trade practices even within their own organizations. There is also the constant danger of overstepping the bounds of exact truth due to ignorance on the one hand or overenthusiasm on the other, of buyers and merchandise men as well as copywriters. These difficulties are very real. Whether untruthful advertising is the result of intention or not makes little difference. The public attitude toward advertising will depend upon its experience with the merchandise purchased as a result of advertising rather than upon any failure in intentions such as are said to supply the broad paving for the road to hell.

As a means of making certain that advertising shall be accurate and truthful, retailers who realize their responsibilities, as well as manufacturers who are national advertisers, have given a great deal of diligent thought to the setting up of definitions and standards to be used as guides in the preparation of advertising statements. In some instances, trade associations of retailers have sought by cooperative effort and common understanding to arrive at such standards, usually termed "codes of advertising ethics."

Perhaps the most effective means of securing the adoption of proper standards of advertising has been through the establishment of organizations made up of retailers and manufacturers known as "Better Business Bureaus." These organizations, now found in nearly all of the larger cities as well as many of the small towns of the country, enforce honesty in advertising among their own members and invoke such legislation as may exist against non-members. Better Business Bureaus approach the problem by securing the acceptance of standards or rules governing advertising practice by cooperative effort, and effective impartial executive organization is

even provided to secure the enforcement of these regulations within the community. It has frequently happened that those retailers who have been most interested in the establishment of the Better Business Bureaus and most desirous to secure its beneficial effects have been the first to be notified of infractions of the standards set up.

Among the matters considered unethical, untruthful, and destructive of public confidence in advertising and which have received consideration in the formulation of advertising standards by Better Business Bureaus and by other retail organizations are the following:

1. Unqualified statements such as the "Greatest sale," "The biggest success," "Never before," and so on, it is felt, cannot be substantiated and convey the impression of misrepresentation and exaggeration.

2. The uses of leaders and specials at cut or cost prices has in some instances been attacked as a questionable form of retail advertising since the use of such loss leaders is invariably to induce customers to come to the store with the hope that other goods may be sold to them on which regular profits may be obtained. Where this advertising method has not been directly attacked it has been subjected to another standard requirement, namely, that all special sales at special prices must be supported by suitable quantities of goods. To advertise a special sale on some article and to have an inadequate stock to support it so that consumers arriving at the store soon after the opening of the sale have to be told that the stock is all gone, is interpreted as an act of advertising dishonesty.

3. Standards or rules of advertising are generally opposed to all sorts of fake sales, fire sales, claims of selling at manufacturer's prices, at cost or at below cost, and so on.

4. In the sale of seconds or damaged goods it is usually required that they be distinctly and clearly marked as seconds so as not to harm the sale of regular goods in competitor's establishments.



5. It is usually required that illustrations must be as accurate in detail as the verbal descriptions, and an illustration that does not accurately portray the merchandise offered for sale is quite as dishonest and quite as destructive as any untruth in advertising copy.

6. It is usually required that the descriptions of construction and composition of materials shall be truthful, and where trade names are used that these be explained. Mixtures in fabrics of cotton and wool, for example, must be described by indicating the exact proportions of the use of each fiber. A trade name such as "Hudson Seal" applied to furs must be accompanied by the explanation that it is really dyed muskrat.

Considerable agitation has taken place over the problem of advertising comparative prices. Several of the best-known retail stores of the country have eliminated comparative prices entirely from their advertising. Other stores, also of high standing, still use them. They feel that no harm can come to the future of advertising from the use of such prices if properly controlled and truthfully used. Better Business Bureaus and retail trade associations usually check comparative prices to make sure that the comparisons are actual rather than imaginary or untruthful.

**The Advertising Budget.**—Most of the larger retail stores that have established advertising departments appropriate amounts that may be expended for advertising in advance of actual expenditures. These appropriations are determined in various ways. In some cases the allotments are fixed by the management from time to time arbitrarily. In other cases the appropriations are based on definite percentages of the net sales of the business. The amounts of the advertising appropriation are usually governed not only by the internal needs of the business but also by what advertising is being carried on by competitors.

Every dollar expended in advertising, of whatever form,

should secure a definite return. Records of advertising experience should be maintained from which lessons and suggestions may be drawn for future use.

The first step in making an advertising budget is the preparation of a plan of advertising for a coming period. The advertising budget should very properly be prepared for the same period as the merchandising budget, usually for six months beginning the first of February or the first of August. The six months' advertising plan or budget should also be supplemented by monthly or weekly and daily schedules of efforts and planned results. The plan will show what is to be done, together with expected results and the cost.

In setting up an advertising budget for a period of six months in advance, careful consideration needs to be given to past accomplishments, that is, what advertising has been carried on in preceding periods, and what effects were then secured. In this connection the competition advertising of other concerns during the same periods needs to be considered.

The advertising plan should also outline by the calendar method a list of the activities of the people of the community, or at least of the clientele of the store, so that the advertising and merchandising program may fit into the needs of the public. Finally, among the general facts considered in making up the plan should come an analysis of business conditions and their probable effects on the trade of the store.

After the general considerations enumerated above, the budget may well proceed to details and estimates of activities by departments and by sections. Some stores set down their past experience and their estimates of future advertising, indicating, department by department, what advertising appropriation should be made and what amounts should be expended, classified by staples, fashion goods, and novelties, for prestige purposes and for emergencies.

The following is a tabulation of a typical distribution of



an advertising appropriation for a women's apparel department in a metropolitan department store:

| Percentage of total appropriation for: | |
|---|---|
| Staples | 25% |
| Fashion goods | 40 |
| Novelties | 15 |
| Prestige | 10 |
| Miscellaneous and emergencies | 10 |
| Total | 100% |

Some stores give careful consideration in appropriating their advertising funds to such items as leaders and specials, as well as to regular merchandise and long profit-makers.

A further breakdown of the advertising appropriation for any given department is essential to meet the seasonal requirements corresponding to the sales and profit-making possibilities. In fashion merchandise it is considered good policy to devote advertising during the earlier part of the season to the new styles and the higher-priced lines, expending as much as a third of the entire six months' appropriation during the first month. Later in the season a considerable part of the advertising appropriation is devoted to the promotion of accepted or assured fashions in the medium-priced lines. Usually two-thirds of the total appropriation is expended before half of the season is gone. In the latter part of the season the remainder of the advertising appropriation is devoted to the promotion of special purchases, bargain sales, clearances, and lower-priced goods.

The advertising budget is usually drawn up so as to indicate what proportions of the appropriation should be expended in the various classes of mediums used by the store and what forms of advertising are to be used. As the experience of a store develops, it will probably be found that certain classes of merchandise may be promoted more effectively by direct mail and by other miscellaneous advertising methods than by newspapers. The advertising appropriation is divided accordingly.

Usual divisions in advertising by advertising mediums found in dry goods stores run about as follows:

Newspaper advertising: from 60% to 90% with an average of 75% of the total appropriation.

Direct mail: from zero to 25% with an average of 15% of the total appropriation.

Miscellaneous: from zero to 25% with an average of 10% of the total appropriation.

The accompanying forms indicate adequate methods of setting up the advertising budget for the store as a whole for a

| Sales | Last Year | Budget | Actual |
|---|---|---|---|
| Total publicity | | | |
| Per cent of sales | | | |
| Administration: | | | |
| Salaries | | | |
| Traveling | | | |
| Supplies | | | |
| Newspapers | | | |
| Direct mail | | | |
| Postage | | | |
| Miscellaneous | | | |
| Total | | | |

Figure 66. General Advertising Budget. (Figures are usually drawn up for seasons or six months' periods, but may be for months or any other convenient division of time.)

six months' period, month by month, and a form of a detailed advertising budget for a single month. (See Figures 66 and 67.)

**Advertising Organization.**—In small stores the functions of advertising are usually performed by the owner or manager with perhaps some assistance from his employees. Larger stores find it profitable to specialize the functions of advertising and to employ an advertising manager or a publicity director, as he is often called in the larger retail institutions.



ADVERTISING BUDGET

| Dept. No. | Department | Details | Totals for 6 months | | February to August | | March to September | | April to October | | May to November | | June to December | | July to January | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Amt. | % | Amt. | % | Amt. | % | Amt. | % | Amt. | % | Amt. | % | Amt. | % |
| 7 | HOSIERY | Sales Last Yr. | $200,000 | 100 | $30,000 | 15.0 | $35,000 | 17.5 | $40,000 | 20.0 | $38,000 | 19.0 | $30,000 | 15.0 | $27,000 | 13.5 |
| | | Sales Budget | 225,000 | 100 | 32,000 | 14.2 | 40,000 | 17.8 | 48,000 | 21.3 | 43,000 | 19.1 | 32,000 | 14.2 | 30,000 | 13.4 |
| | | Adv. Last Yr. | 8,000 | 100 | 1,200 | 15.0 | 1,500 | 18.8 | 2,500 | 31.2 | 1,700 | 21.3 | 600 | 7.5 | 500 | 6.2 |
| | | Adv. Budget | 9,000 | 100 | 1,350 | 15.0 | 1,620 | 18.0 | 1,800 | 20.0 | 1,800 | 20.0 | 1,350 | 15.0 | 1,080 | 12.0 |
| | | Adv. Actual | | | | | | | | | | | | | | |

Figure 67. Departmental Season Advertising Budget

The divisions of work in an advertising department include:

a. Interior display
b. Window display
c. Advertising
d. General publicity, and so on

In the larger organizations each of these functions is performed by separate departments. Further specialization in department stores is usually obtained by employment of special copywriters for various classes of merchandise such as women's and misses' apparel, men's apparel, home furnishings, basement goods, and so on.

In conclusion, the functions of the publicity division are as follows:

1. To determine in consultation with the general management of the store what the advertising policies shall be and then to execute them in careful detail.
2. To cooperate with the merchandising departments of the store to determine what goods shall be advertised, the methods of advertising, and the amounts to be expended.
3. To cooperate with the merchandise division in planning special sales.
4. To supervise the preparation of all advertising copy used by the store.
5. To supervise all display activities and decorations carried on within the store or windows.
6. To make contracts for all space purchased in the various advertising media and for other services purchased by the store.
7. To supervise the production or purchase of all signs and show-cards required in the store.
8. To promote and issue the news about the store that may be used as publicity.
9. To prepare and submit to the general manager in advance of each period a budget of publicity expenses classified in appropriate detail.
10. To compare actual publicity expenses monthly with the planned estimates, account for discrepancies, and suggest necessary revisions.



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# CHAPTER XVII

## RETAIL SALES PROMOTION

The function of the retail store is to sell merchandise. Devising intensive methods for securing sales constitutes sales promotion. Every buyer and department manager, every advertising and display man, must of necessity be interested in sales promotion. In many retail stores the general manager gives the problem of increasing sales his first consideration.

During recent years there has been a tendency in a few large mercantile institutions to employ specialists giving their entire time to planning and devising methods of increasing sales. Such officers are known as sales promotion managers or simply sales managers.

In most department stores, department managers are sales managers as well as buyers. The creation of the position of sales promotion or general sales manager may appear as a duplication of organization effort. The functions of the sales manager, however, are usually such as to supplement those of department heads and of the advertising staff.

**Functions of the Sales Promotion Manager.**—Among the many functions of the sales promotion manager as usually carried out in stores in which such executives have been appointed, the following may be mentioned:

1. To correlate the effort and work of the merchandising and publicity departments. In a sense, the sales promotion manager is a liaison officer between these two departments.
2. To secure teamwork of all departments of the store to increase sales.
3. To have charge of all special sales and selling events.

4. To discover and devise new opportunities for sales promotion, many of which are usually neglected in every merchandise department.
5. To work out and give sales opportunity to undeveloped lines of goods.
6. To increase store sales by the development of charge account and of deferred account business, by definitely selling the charge account service of the store to new customers.
7. To induce customers who regularly patronize certain departments to visit and become customers of other unused departments in the store. Every analysis of customers' trading habits in retail stores shows a widespread tendency to trade in certain departments and to overlook the others entirely.
8. To increase the sales of the store by development of interest in special lines of merchandise such as those required for vacation use, or for school and college.
9. To increase the sales of the store to employees and to the families and friends of employees.

**Forms of Sales Promotion.**—Among the many devices utilized by sales promotion managers to increase the sales of the store is the creation of special selling events. One of the main functions of the sales promotion manager, if not already attended to by the regular merchandise and publicity organizations, is to trace the trends of consumer demand in the community throughout the year and to set up a calendar of sales activities to meet these varying demands. Thus plans are made for seasonal sales to take care of consumers' requirements in clothing and home furnishings, travel and vacation goods, holiday goods, and so on.

Such analysis and planning is in every way desirable. It forms a part of the store's program of serving its clientele in the way that it desires to be served. Whether a separate and special sales promotion department is created in a retail organization or not, these activities should be carried on in every retail store.



There are numerous other methods of sales promotion employed, some of temporary and others of permanent value. Among those of substantial value may be listed the presentation of exhibitions of an educational nature such, for example, as displays showing methods of manufacture of merchandise, variety of goods meeting certain purposes, and fashion shows. Demonstrations of the uses of goods are closely related to such exhibitions and may be made to contribute to the sales volume of the store.

As a feature of sales promotion, many retail stores conduct educational lectures and courses in such subjects as interior decoration, clothing selection, and dressmaking, the use of cosmetics, home building, and so on. When properly promoted, and when held at the right time of the year, these educational efforts usually attract considerable favorable attention.

The establishment of service bureaus for customers is another important form of sales promotion. Among such bureaus are those giving style information, advice on family budget making, advice on parties, entertainments, and so forth.

A few large stores have successfully made contacts with the various club movements in their communities, such as inducing them to make the store their club headquarters, in some instances providing the meeting space and in others the necessary supplies. Among club movements with which retail stores have found it worth while to become affiliated and to which they might render service, are included organizations of women, girls, and boys, charitable organizations, musical organizations, luncheon clubs, bridge clubs, and so on.

The department store is the logical retail institution for sales promotion affecting all branches of children's work. A variety of services helpful in this field may indirectly serve as valuable aids to the development of the store's goodwill. Among these may be mentioned circulating libraries specializ-

ing in children's books, exhibitions of children's foods, clothing, toys, and so on. The promotion of interest among mothers through special exhibitions of infants' goods and conducting a camp and school bureau for young people are on the lists of sales promotion activities. Other forms of sales promotion of quite a different kind but still useful in attracting attention to the store include premium plans, the use of coupons and trading stamps, the distribution of souvenirs, such as toy balloons to children, and of prizes in various forms for various purposes such as for school essays, agricultural products raised by young people, flowers, gardening, cookery, dressmaking, and so on.

**Special Sales.**—The most frequently employed device in the field of sales promotion is the special sale in which the merchandise is offered to the public at less than regular prices.

Whether store-wide, departmental, or confined to items or lines, the purposes of special sales are either to stimulate greater sales or to attempt to get rid of merchandise not wanted by the public at regular prices or as offered in a regular way. Special sales have advantages as well as disadvantages from the standpoint of the store. They do produce increased business. A large part of the retail volume in nearly all kinds of retail stores is secured through special sales. It is probable that from 25% to 35% of all the furniture and home furnishings sold are purchased by the consumers at special sales. Similarly, large proportions of such other goods such as pianos, musical instruments, radios, furs, and apparel of all kinds are purchased by the public in this way. An analysis of the overcoat sales in a chain handling men's clothing showed that in a period of five years an average of more than one-third of all the coats handled were sold in special sales, at markdowns and short gross profits. There are many retail stores that get practically no consumer response except by holding special sales. In consequence, their business is a rapid succession of special sales. Quite obviously,



a large number of people expect special sales in retail stores and watch for them. End-of-season clearance sales in reputable retail stores always attract large crowds.

From the standpoint of the retail store, the special sale as a method of sales promotion not only secures a greater sales volume but may be used as a means of securing new customers. The special sale attracts the attention of people who have not been at the store before, or at least have not become regular customers. It is presumed that some of those who are attracted to the store by the special sale will be induced to come again and to become regular customers.

The special sale may also be an effective device of attracting the attention of the regular customers of the store to departments not much patronized. Customers of apparel departments are not always customers of the home furnishings departments, and customers for toilet goods, notions, and costume jewelry do not always patronize the apparel department. Special sales in weak or neglected departments may be the means of securing wider interest on the part of the store's customers, and particularly to these departments.

Special sales give the retail store an atmosphere of liveliness. It gives the supervisors of the store as well as its employees something over which to become enthusiastic. Regular business conducted in a regular way, week in and week out, without special stimulation of sales, tends to become monotonous. The value of the special sale as a means of stimulation of the store's organization is not to be minimized.

One of the most useful as well as legitimate functions of a special sale in a retail store is to get rid of slow-moving stock, of goods bought as a result of buyers' mistaken judgments, styles that do not become fashions, and goods that consumers never want, and overstocks due to overestimates of the regular consumer demand. The special sale is a logical method of ridding the store of odds and ends of merchandise at the end of the season. The special sale is a quick means of

moving out such goods and clearing the way for new goods and new promotions.

The retail store, hard-pressed financially because of over-extensions of credit or overpurchases of goods for which creditors are demanding payment, often has no other method of raising the needed cash than by means of special sales. Often special sales are made necessary to meet competition. One store of a community starts the ball rolling by conducting a departmental or store-wide sale and this is followed by similar sales in the other stores to counteract such effect as might be secured by the first store to pull the sale. The net effect, of course, of competitive special sales is of doubtful value to the stores that participate.

One should distinguish, however, between competitive special sales and competitive price making. A retail store may follow a policy of not being undersold by its competitors and of meeting any price reductions that competitors may make without using such price-cuts as the basis for special sales promotion. In some instances retail stores may meet the price competition of others by cutting the prices on such goods as are not cut by the competing store. Instead of meeting the price reductions in the lines advertised by the competitor, other price reductions are made in lines selected because they are known to be substantial sales and profit-making items in the competing price-cutters' stores. This policy of alternative price-cutting, if consistently followed, is likely to do more to discourage the destructive price-cutting competitor than any other competition.

**Aggressive Sales Promotion.**—It is the function of sales promotion in a retail store to make definite plans to secure retail sales not merely to watch for opportunities to sell but to go out and make them. An active sales promotion policy investigates public demand at every angle to determine what new ways will stimulate interest and what appeals will bring



results. A store is to the sales promotion manager what a magazine is to its editor. The magazine may specialize in certain types of reading matter and thereby serve the interest of certain classes of readers. This reading matter may consist of adventure stories, detective stories, romances, war stories, biography, household management, or what not. Each issue presents its quota of such reading matter. While all issues are alike as to the type of reading matter supplied, every issue must present new stories and new materials. Similarly, the retail store may continue to sell groceries, apparel, hardware, or furniture, but the way in which it is offered to the public, the sales story, must continually be new.

**Outline of Plans Necessary to Make a Special Sale Effective.**—Modern sales promotion organizes all of the available forces of a retail store to make selling effective. In relation to a special sale, such preparation may consist of steps such as the following:

1. Predetermination several months in advance of the time of the sale, if possible the method in which it is to be conducted and the merchandise lines to be offered.

2. Determination of a sales quota with subdivisions and the assignment of responsibilities to secure the quota.

3. Preliminary promotion within the organization to secure constructive planning from all who are to have a part in it. Get everybody in the organization to help.

4. Announcement of the special sale in advance to the sales force, outlining what is to be sold, what sales points should be emphasized, places and opportunities in which suggested selling is to be carried out and, finally, getting the salespeople so enthusiastic about the sale that they will tell their friends. Some stores have even been able to include the cooperation of their delivery men by having them simply say at each delivery call made during the week preceding the sale, "We are going to have a big sale at our store next week on such and such lines. I

think you would be interested to come and look at these goods." This is one of the most effective types of advertising a store can employ.

5. When the sale starts its progress may be indicated day by day by means of bulletins or other announcements to the staff. It is highly important that they take an intelligent interest in its development.

6. Finally, there is the post-sale slump against which precautions must be taken and the necessity of provision for activities of sufficient interest to keep the salespeople from losing interest in their work even for a day.

**Objections to Special Sales.**—Objections have been heard on every side to special sales, both store-wide and departmental, for years. It would be easy to name individual stores that have suffered disastrous effects from special sales policies. There is almost general agreement that special sales do very little more nowadays than stimulate a temporary increase in volume. Every one doubts the efficacy of the special sale as a means of getting repeat business and particularly in creating goodwill. Despite these objections the special sale still holds first place as a means of getting increases in volume.

Let us consider the difficulties of the special sale as a means of increasing store volume in detail:

1. In order to succeed, a special sale must in truth offer something special to induce customers to come to the store to make purchases. This ordinarily means lower prices, lower markup, and less net profit. As a condition of success a special sales policy must expect little or no net profit.

2. Retail stores operating special sales as a rule attempt to secure the cooperation of their suppliers, the manufacturers and wholesalers. This attempt in many cases means the application of great pressure, such as threats of withdrawing regular business and promises of future business which are by no means always fulfilled. The relations between retailers who



run frequent special sales and their resources tend to become more and more irritable. Goods obtained under such pressure are likely to be of poor quality, usually job lots, of hasty workmanship or undesirable in other ways. Store managers whose contact with the market is limited have no idea of the amount of ill-will stirred up by their buyers through efforts to obtain special merchandise at cut prices for sales purposes. Ordinarily it does not take very long before the manufacturers and wholesalers erect their defenses against these buyers so that in the long run they lose out not only on specials but also on regulars as well. One of the perennial pests of the cooperative resident buying offices is the special sale buyer who after exhausting his own welcome at resources attempts to trade on the strength of the entire group with the help of the resident buyer.

3. Special sales do not make good without careful planning. The amount of time and energy consumed by executives in making these plans is hardly ever charged to the sale, but the greatest evil is that so much time is diverted to the special sales as to prevent proper attention to the regular business.

4. At best, plans for special sales are difficult to make. Special sales are subject to no known rules. There is no way of knowing what the weather will be. Consumer demand is subject to streaks and some goods are sold out early in the sale; others thought by the buyers and merchandise managers to be equally good are not wanted at all. It is almost impossible to merchandise for a special sale without having altogether too much of some lines and too little of others. What is left over must frequently be disposed of at a considerable loss and insufficient merchandise to take care of consumer demand during the sale results in consumer irritations and dissatisfaction.

5. Store managers do not usually take adequate account of all of the expenses incurred in running special sales. If they did it is probable that there would be more question than there

has so far been as to their profitableness. Among the expenses that should be charged to the special sale are the following:

a. Publicity of all kinds playing up the sale.

b. Extra help employed including salespeople, wrappers, delivery men, and so on for the full time employed including the training and waiting periods.

c. The time of the personnel department in hiring and training these new people that should otherwise be devoted to work on the regular staff.

d. The time of regular executives of the store consumed in planning and preparing for special sales.

e. Expenses for overtime, supper money, and so on, both before and during the sale.

f. Additional expenses in supplies and materials wasted by new employees in packing.

g. Breakages and shortages due to inexperienced packing and delivery.

h. The time devoted by the adjustment department to settlement of difficulties arising out of the sale.

i. The returns and exchanges of goods improperly sold and all expenses of replacing in stock and reselling a second time.

j. Additional rentals, not only for space actually occupied by special sales merchandise, but also space blocked up by the overflow of customers preventing regular trade.

k. Increased illness and absences of employees from sales, packing, delivery, adjustment, and accounting departments, due to bad ventilation, fatigue, nervousness, and so on.

l. The overloading and often discontinuance of telephone and mail order business, both of which should be channels contributing substantial amounts to the daily business in present-day retail stores.

m. Finally, in any consideration of the expenses of a special sale due account should be taken of markdowns that must be taken after the sale, not only on merchandise offered but not sold during the sale, but on regular goods which should have moved during the period of the special sale but which did not have a chance. A store with a special sales policy is almost always a



store with high markdowns not only on its special sale merchandise but on all other merchandise as well.

6. The increased activity which some store managers so much like to see in a special sale is in many cases nothing more nor less than confusion due to the extra salespeople and other extra help getting in each other's way. Increased burdens are placed upon the older employees to aid, answer questions, and explain things to the extras. The space back of counters which comfortably accommodates a certain number of regular salespeople working at full efficiency, becomes a mess of confusion with double the number of sales people on duty.

7. Poorer selling service results from the employment of new salespeople who, in spite of the most intensive efforts of the training department, cannot possibly know their stocks, their customers' needs, or how to sell as well as regular employees. Questions asked by customers must be referred to older employees. Extras are usually made up of low-grade help, otherwise unemployed, picked up temporarily for the sales period. The people so employed know this as well as their employers. Not much is expected of them, consequently, there is never very much disillusionment when they produce even less. The typical attitude of the extra helper hired for a special sale is one of irresponsibility.

8. The regular salespeople do not do as well during sales periods as under normal conditions. The department congestion, the early disarrangement of stock, the rush of customers, all tend to slow up the selling process, to increase irritation, nervousness, and fatigue, to provoke discourtesy, and to build ill-will instead of goodwill for the future.

9. Special sales as a rule result in a decline in the quality of services in all departments of the store, as for example, in the tube room in making change; in authorizing charges; in bad packing resulting in wastage of supplies; breakages and shortages; in slowing up delivery so that instead of 24-hour service

customers must wait for their merchandise for three or four days or even more than a week; impaired contact with customers when deliveries are made due to lack of experience of the new delivery men; poor care of delivery equipment; and overloads on the adjustment department. The net result of all this poor service is an enormous increase of ill-will for the store which may take months or even years to overcome.

10. One of the worst features of special sales is that not only during the sale but for some time before and also afterwards, the sales of regular stocks suffer. During the period of preparation for the sale, as has already been pointed out, the attention of buyers and other executives is concentrated on planning for the success of the sale to the neglect of current seasonable merchandise stocks which might and should be merchandised successfully. Consumers postpone purchases until the periods of the sale. During the sale the emphasis of consumer demand quite naturally falls on special sale goods, and on price rather than on fashion, quality, or service. The common testimony from all dealers is that almost every special sale is followed by a bad slump for several days, if not weeks, thereafter.

Special sales usually attract bargain-hunting customers, only a small percentage of whom can be converted into regular customers. When the lure of the special sale is over in your store they will patronize the special sale in your competitor's store and will come back to you only when you have something special to offer. On the other hand, a considerable percentage of the regular customers of any established store are antagonized rather than attracted by sales methods. Studies made of the reasons for closed accounts, again and again have shown that the difficulties leading to the termination of purchases arose in peak sale periods.

11. Every store, no matter how successfully conducted, has its ill-will as well as its goodwill. Some institutions list goodwill in their balance sheets, although ill-will is as real and as



certain to exist as goodwill. I have never heard of ill-will being set up in the liabilities column of the retail store property statement. One can frequently find a goodwill item, particularly if the store is about to be transferred to new owners. Logically, there is no more reason for setting up goodwill than there is for setting up ill-will. Goodwill and ill-will may be balanced but they don't cancel each other. Both exist in some degree in every store at the same time in the same way as accounts receivable and accounts payable exist at the same time. What are the net effects of special sales on the amounts of goodwill and ill-will? Are there any real goodwill results after the sale is over? How many new permanent customers have been added to the business? This is the real test. If the flood of retail business secured by the sale cannot be continued except by repeating sales then the store has little to show for its outlay of planning, energy, and expense but the glory of a big day, and what price glory!

12. Finally, high-pressure advertising seems to be necessary to put over special sales. Consumers have their buying habits to which they conform fairly evenly. A big special sale with its offers of merchandise does not ordinarily fit into the buying plans of consumers very well. To make the sale a success consumers must be jogged out of their accustomed spending habits. To do this requires advertising artillery.

Reduced prices on regular goods is, of course, one of the most effective means to this end. Extraordinary values is another means. The public must be told about these reductions or extraordinary values. The tendency to exaggerate is almost overpowering. This tendency is so difficult to manage and so insidious because it is often wholly unconscious. Nothing but the closest possible check-up can prevent such overstatements. Even the stores with the highest standards of advertising slip when it comes to special sales.

As a matter of fact it is very difficult to justify a special sales price on any rational ground. If it is a markdown from

a higher price it can be interpreted in either of two ways. It either indicates that the store has made an error which it desires to correct by repricing, or the store is trying to buy custom by offering a premium in reduced prices.

If the store has made a mistake in its judgment, in the first place, of the consumer value of the merchandise, then it may be necessary to try to find customers at lower price levels. A thing is worth what it will sell for and if it won't sell at the first price it isn't worth that price. To claim such a value is a misstatement.

A second reason for a marked-down price is to pay or bribe people to come to the store. You spend money in advertising in telling them to come. You find, let us say, that you can bring people into your store at a direct cost in advertising of 50 cents each. You might conceivably offer silver half dollars to all who come through your doors. Obviously, the only reason for bringing them into the store is the hope that you may be able to sell them some goods on which you can recoup your advertising expense and, if possible, make a little money besides. It isn't customary to tell the customers this but customers probably have learned this by experience. If markdowns and comparative prices do not represent mistakes of judgment and are not intended to serve as gifts or bribes, then what are they?

The tendency to exaggerate in sales advertising takes other and possibly even more difficult forms. For a number of years retail advertising men have complained about the declining pulling power of retail store advertising. It appears that consumers are becoming less and less responsive. The overemphasis of price is, in the opinion of many, the leading reason for the waning influence of advertising. What about the copy dealing with the merchandise and its qualities? Probably special sales advertising is largely responsible for this, but what of the detailed causes?

For a number of years there has been a steady improvement in advertising in the elimination of untruthful statements concerning the materials, construction, purity, fastness of color, and other qualities of the goods offered for sale. It has been a long and difficult struggle. In spite of the most definite enunciation of policy and the greatest possible watchfulness, statements creep into the advertising which cannot be justified by facts. Most representative reputable retail stores, however, are exercising every possible effort in the elimination of such dishonesty and exaggeration.



There are other qualities of merchandise, however, besides materials, fastness of color, and workmanship. Probably the most important quality of all in these days is style and fashion. What about the statements made in advertising to the consumer that such and such goods are the fashion which are not now and never will be the fashion? Is it not essentially just as dishonest to make a claim that a garment, a hat, or a pair of shoes is in fashion, when it really is not and probably never will be, as it is to claim that the fabric is all wool when it really contains 90% cotton, or that a color is absolutely fast when its first laundering destroys it completely?

The Better Business Bureaus have not yet reached this subject of dishonesty in fashion statements, but the public has probably long since done so. Obviously, one antidote for the evils of special sales is to sell people the goods they want. They want to be in fashion, therefore retail stores should sell them fashion goods and retail advertising should help by telling truthfully what goods the store has to offer that really are in fashion.

The special sale in all its varieties has a great many disadvantages. It is not urged, however, that all sales be eliminated. There is a legitimate place for clearance sales on merchandise that does not move at the regular prices, merchandise representing mistakes in judgment on the part of the buyers, slow-moving items, merchandise whose fashion value is passing out rapidly, and so on. The function of this type of special sale,

however, is to rid the store of poor-selling merchandise. Such special selling cannot be considered of any importance in increasing sales volume. Its special object is to make way for fashionable, wanted merchandise which can be sold in the regular way.

Undoubtedly, the soundest form of sales promotion is that which fits itself most closely to consumer demand and its changes from season to season and from day to day. Sales promotion based on consumer demand trends devises ways and means of stimulating consumer interest for every selling day in the year and not for the million-dollar days alone. Effective sales promotion means attractive prices all of the time. It means completeness of stocks of wanted goods, it means having goods that are in fashion when they are in fashion, at the prices customers can afford and are willing to pay. The first step to effective sales promotion is the development of a technique of predetermining consumer demand. This is the alternative to the wastes of time, effort, and money now consumed in special sales.

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# CHAPTER XVIII

## RETAIL DELIVERY SERVICE

Retail store delivery of merchandise to consumers is a service that has long been rendered without extra charge by most stores. Its growth has paralleled the growth of cities and towns. It is a service that seems absolutely necessary in connection with the conduct of certain types of business, particularly those dealing in heavy, bulky goods which cannot be readily carried by customers.

During recent years there has been a rapid development of stores doing business on a cash and carry basis, a seeming reaction from the trend of growth of full service stores. Most of the stores in this new development have been chain stores. The proportion of cash sales to total retail business is undoubtedly growing but it is not clear that the types of retail business giving no deliveries are showing equal growth. Some of the chain stores originally established to give no deliveries have more recently made provision for such service, and the number of chain stores as well as of independents that make deliveries to customers seems to be growing.

There are also indications that delivery service in other types of retail stores in which delivery has continuously been made in the past is at present on the increase in this country. The proportions of total sales that must be delivered by the store to the homes of the consumers, instead of being carried out by the customers, seems to be growing. There are comparative statistics for certain department stores indicating that the proportions of goods sold requiring delivery have increased from 25% to 50% since 1912 and 1913. Similar evidence for other types of retail stores is lacking but it is unlikely that





there has been any decline in the demand for delivery service anywhere except in cash and carry stores, as referred to above.

Methods of present-day living favor the extension rather than the reduction of delivery service. The rapid increase in sales that has occurred in stores in central shopping districts has been accompanied by a more than proportional increase in demand for delivery service. The increases in sales in stores so located have to a considerable extent resulted from extension of their radius of selling; and certainly the farther customers live from the store the more desirable delivery service becomes. On the other hand, the reduced size of homes and the tendency of consumers to buy goods for daily needs from hand to mouth has contributed a sales volume requiring little or no delivery.

During the period of the World War the general upward tendency in retail deliveries was considerably checked. To release men for military service retail delivery organizations were quite generally cut down. Stores that had formerly given two to four deliveries a day reduced their service to one delivery per day. Many stores that had formerly given deliveries eliminated them entirely at this time or made provision for delivery through distributive commercial delivery organizations.

An interesting experiment was made by the William Filene Sons Co. in Boston during 1917-1918. For a number of years before this time it had been the policy of this store to make a separate charge for delivery of goods sold in their bargain basement. During this experiment all sales in the entire store were made on the same basis. Cost of delivery prior to that time had averaged about 10 cents per delivery. Customers were informed of this fact and during this period a flat charge of 10 cents was made on all deliveries from the store. The result was a short, steep decline in the number of deliveries. In some cases customers objected to the charge, in others they transferred their trade to competing stores that continued the free delivery service, but in the majority of cases they carried their own purchases. Because of the decline in the number of

deliveries and because it was impractical for the store to readjust its delivery organization to meet this steep decline, the average costs of delivery for the year increased to more than 20 cents. Thus the system of charging did not meet quite half the expense of delivery and, as a consequence, the store was somewhat worse off as a result of the experiment. At the end of the year the store resumed its regular practice of giving its upstairs customers free delivery.

There are, however, numerous small stores, especially drug stores, throughout the country that have no internal delivery organizations but which provide delivery service through outside messengers at small extra costs to consumers. The E. W. Fulmer Company of Springfield, Ohio, operating a chain of stores, has since 1919 carried out a policy of collecting 5 cents for each delivery. The charge is uniform regardless of the amount delivered whether it be a spool of thread or a truck load. Deliveries are made for the stores by an outside delivery company which is employed by the stores. This concern also collects 1% on all goods charged and carries continuously about 3,000 active accounts on this basis.[1]

Another indication of the general tendency to increase free delivery service to consumers was the adoption of a policy by the large mail order houses in the summer of 1929 to give free deliveries by parcel post or express to all customers. Thus catalog prices of these concerns, which had formerly been f. o. b. prices, came to mean prices of the goods laid down in the customer's home.

**Retail Delivery Problems.**—The problems of retail delivery, whether in a large or small store, are difficult of economical management. Consumers generally want their goods as promptly as possible after purchase. A delay of a few hours raises a flood of complaints. The demands made upon the

[1] Four Square Credit System of Chains, in *Annual of Chain Store Progress*, H. H. Lestico Publishing Co., 1929.



delivery department efficiency vary from day to day and from month to month. In some lines of retail business, deliveries on Saturday, for example, are from 25% to 50% higher than on any other day in the week and many organizations find that the demand for delivery during the month of December may be 100% higher than any other month in the year. Making provision for prompt deliveries both during the slack and peak periods requires extra equipment, reserve personnel, carefully-planned system, and so on.

Another growing problem of retail delivery is the increasing difficulty of making the deliveries at the homes of customers. A generation ago the main requirement with respect to delivery service was that goods should be delivered through servants' entrances and at the back doors of homes rather than the front. Now the problem is one of finding any one at home to whom delivery may be made. Fewer homes have servants, families are smaller, and housewives do not stay at home much of their time. Department stores report that in as high as 50% or more of the calls customers are not at home when deliveries are made. Either the delivery man must call again or attempt to leave the goods with some nearby neighbor.

The improvement in technical equipment for delivery purposes has been enormous but along with the installation of such equipment has come the necessity for more technical and more expert inspection and supervision. Modern delivery, whether the scale on which it be conducted is large or small, has come to be an engineering proposition.

**Varieties of Delivery Systems.**—Retail stores make their deliveries by some one or more of the following methods:

1. Individually owned delivery outfits
2. Cooperative delivery
3. Consolidated delivery
4. Parcel post
5. Express delivery

Individual delivery is general throughout all parts of the country. Since description of delivery methods following in this section will apply particularly to individual delivery systems, nothing further will be presented at this point.

Cooperative delivery systems have had an interesting growth. Retailers' groups in several American cities had united in establishing cooperative delivery before the period of the World War. Most of these systems, however, had, up to that time, attracted but little attention. During the World War one of the methods of economizing in labor, gasoline, and other materials urged by the Commercial Economy Board was cooperative delivery, in consequence of which this system received very wide consideration and adoption in many additional communities. Cooperation in delivery involves cooperative ownership and management of a single delivery system serving several retailers. The advantages urged for cooperative delivery are that it eliminates the duplication of delivery equipment, saves valuable space devoted to delivery work in the retail stores, relieves the store of the responsibility for delivery organizations, and makes shorter delivery routes with more deliveries per mile than would be possible under individual delivery. If desired, it may be possible to secure more frequent deliveries and, finally, cooperative delivery should result in considerably lower costs per delivery than under individual delivery systems. Reports from towns in which cooperative delivery exists usually indicate that costs may be cut down.

Cooperative delivery seems to work best in medium-sized cities. To make cooperative delivery highly efficient there must be enough work to make it profitable to establish a completely-equipped delivery unit. What a complete delivery outfit comprises will vary with the size of the community to be covered. It is probable that cooperative delivery cannot be made profitable in a community so small as to have fewer than 100,000 deliveries per year. At an average delivery cost of 10 cents



per stop, this would mean a gross revenue for conducting the delivery department of $10,000 a year. This sum will not go far in paying for upkeep and operation of a delivery outfit. Retailers' groups from whom the number of accumulative deliveries exceed 500,000 packages per year may probably secure very well-equipped delivery systems. The manager of the Clearing House Parcel Delivery Company of Boston has estimated that it requires at least 1,000,000 parcels per year to make complete delivery service profitable in the 50-mile radius of the city of Boston.

It goes without saying that a cooperative delivery system to succeed must have capable and reliable management and that it must be well-financed.

Consolidated delivery systems are even more frequently found than cooperatively-owned delivery organizations. The term consolidated delivery is applied wherever several retailers turn over their delivery work by contract to some private organization. The Clearing House Parcel Delivery Company of Boston is an organization of this type as is the Merchant Parcel Delivery Company operating in the Pacific Coast states, Seattle, Oakland, and Los Angeles; Merchant Delivery, Inc., of Louisville, Kentucky; and Merchants' Delivery Co. of Ann Arbor, Michigan. The Eleto Company of New York makes all of the deliveries for Lord & Taylor and McCreery's. It is operated as a consolidated delivery organization, but all stocks in this corporation are owned by the two stores, so that it is essentially a cooperative system.

Failures as well as successes have occurred in consolidated delivery systems as they have in cooperative systems. Such failures are usually due to lack of good management, inadequate delivery outfits, and unwillingness on the part of retail stores to cooperate. There are, however, instances of very prominent successes in both types of delivery systems. The Merchants' Delivery Co. of Ann Arbor, Michigan, for example, has been in continuous existence since 1907. Both co-

operative and consolidated delivery deserve more consideration from retailers throughout the country than they have received to date. For a number of years following the period of the World War, the possibility of employing the parcel post as a general means of delivery of merchandise to consumers was carefully considered. Several experiments were made in various parts of the country. The most notable of these took place in St. Paul, Minnesota, during 1919-1920. The postmasters of St. Paul took an active interest in the development of the experiment, with the result that a number of the retail stores of that city turned over their entire delivery to the post office. The reports were highly favorable. Experiments in other cities resulted in dissatisfaction. Lack of cooperation on the part of the post office departments may have been responsible. No such experiment of parcel post delivery as a general method of retail store delivery has, so far as is known, been made at any time from Washington. There are, of course, enormous amounts of goods delivered by retail stores to their customers by parcel post in all parts of the country. Generally speaking, however, the post office delivery system is not sufficiently well-organized or equipped to take on the entire work of delivery for retail stores.

Express companies are, of course, used to a very great extent in making retail deliveries to customers. It is interesting to speculate on the reasons why the regular express companies have not entered into arrangements with retail stores for handling their entire delivery problems. One may conclude that the express companies feel that their type of organization and equipment is not suited to take over retail trade at a price comparable to the operating cost now obtained in large retail stores.

In conclusion, careful study of the traffic problems on outgoing merchandise from retail stores usually shows that there is a profitable field for use of both parcel post and express as



well as delivery through individual or cooperative organizations. Smaller stores, most of whose goods must be delivered, have every reason to be especially interested in the utilization of parcel post, of cooperative or consolidated delivery. This likewise holds true for department stores of various sizes up to a certain point. It is doubtful that a department store whose deliveries exceed 750,000 or 1,000,000 parcels per year can gain very much from membership in a cooperative or consolidated delivery organization. An efficient individual delivery system can be established to handle this volume. Generally speaking, there would be small gains from the change to cooperative or consolidated systems for a store with a volume of such deliveries under most conditions.

**Methods of Delivery.**—Retail store deliveries to consumers are made by horse and wagon, pushcarts, gasoline automobiles, electric trucks, bicycles, motor cycles with side cars, and special messengers.

The traditional method of delivery was, of course, the horse-drawn vehicle, but the use of horses in proportion to total deliveries began to decline as soon as automobiles came into existence. Retail stores were among the earliest to employ automobiles on a commercial basis. As early as 1913, according to a survey made by the *Dry Goods Economist* at that time, horses were used in less than half of the department stores throughout the country. Since 1913, there has been much discussion as well as experiment on the conditions under which horses may be used rather than self-propelled delivery vehicles. Horses are still used to a very great extent in the delivery of certain commodities such as milk, bread and other products from bakeries, ice, groceries, meats, and so on. It has been found out that the use of the horse compares favorably with any other method of delivery wherever the radius of delivery is but a few miles, not to exceed 20 or 25 miles per day, and where stops are frequent. The horse is often an aid

in delivery by following the driver through the street as the latter makes his deliveries. Considerable promotion in favor of horse-drawn vehicles in retail deliveries has been provided by the "Horse Association of America." Despite these efforts, however, horse-drawn vehicles appear to be gradually losing ground even in the fields of delivery service in which they are best adapted, and their places are being taken by electric and gasoline automobiles.

The gasoline motor truck has the widest use in retail deliveries. It is the most flexible in the latitude of use and the best all-round means of conveyance. Electric trucks have gained strong favor for delivery purposes within a narrow radius. Mileage costs are lower than for gasoline motors. There is less noise and there is not the loss in efficiency in starting and stopping the motor that occurs in the gasoline motor. Electric delivery trucks are used for local or nearby deliveries by many department stores and their use is also growing with high-class grocery stores, markets, and dairies.

Aeroplanes have been utilized to some extent for delivery from retail stores to customers, particularly at summer resorts and other points distant from the city. So far, however, such deliveries have been more of a promotion and advertising stunt than a commercial possibility.

Which of the foregoing types of delivery may be best used is dependent upon many conditions. Each of the principle methods of delivery has its strong adherents. The main factors for consideration in selecting delivery equipment are, of course, the amounts and the character of goods to be delivered, the territory to be covered, and the comparative cost of operation of various types of equipment. Generally speaking, the horse-drawn vehicles are most economical in nearby delivery territory. The electric delivery truck has an economic place in a somewhat wider delivery zone than the horse-drawn vehicle, and the gasoline motor truck for more extensive delivery territory. Long distances and heavy loads demand the gasoline truck.



**Delivery Organization.**—The work of retail store delivery may quite naturally be divided into three phases:

1. Internal and preparatory work for delivery, including wrapping and packing, collection of parcels, authorization of charge sales, and routing.
2. External or actual deliveries.
3. Garage and maintenance of equipment management.

**Package Wrapping.**—Goods bought by customers to be delivered are in most retail stores wrapped or packed by the salespeople, by inspector wrappers in subcentral wrapping stations, or by wrappers in a central wrapping department. Relatively few retail stores have central wrapping departments. Such specialization is only possible in the largest stores and is by no means followed by all of such stores. Goods to be delivered must as a rule be more carefully wrapped than goods to be taken and carried by the customer. There is a technique in packing or wrapping parcels which cannot be discussed here but which has an important place in a retail store preparatory to delivery.

**Authorization of Charges.**—Whenever a customer makes a purchase and directs it to be charged and delivered, the authorization of that charge may be arranged immediately by the salesperson or after the goods have been sent to the delivery truck. Authorization in the delivery department may be handled by the authorizers actually located in the delivery department, checking each parcel against an index of customers' accounts, or the parcels may be held in the delivery department until sales checks showing the approval or authorization arrive from the credit department. The last-named method of authorization is known as the "drawback system." Any parcels failing to receive the credit department's authoriza-

tion are drawn back or withheld pending further investigation or unpacked and the merchandise returned to the departments where sold.

**Collections of Parcels.**—Parcels may be collected by the delivery department porters who make periodical visits to each sales department of the store and either carry the parcels or transport them in "wheeler" trucks to the delivery department. In the larger stores the collection of parcels is facilitated by means of spiral chutes, merchandise elevators, and conveyor belts. Heavy goods in boxes and barrels are sometimes moved over gravity roller conveyors.

**Routing of Deliveries.**—When the parcels reach the delivery department, the next task is their sorting to the various delivery routes. A compartment or bin is provided for each delivery route. Various mechanical contrivances have been devised to assist in sorting. One of these is the slide table to which all goods for delivery come. Sorters remove the goods from these tables and place them in the appropriate bins. Another device is the circular belt conveyor instead of the stationary slide table which keeps the packages moving until they come to the right sorter who removes them for the bins he serves.

Routing deliveries is a matter of scientific consideration covering intimate geographical details of the community in which deliveries are made, the number of miles to be covered, the average number of stops, the number of packages carried, the character of the roads or streets, and so on. Suitable routings are laid out on the basis of such information providing for the store's delivery.

After the parcels have been deposited in the bins according to the delivery routings the next step is sheet writing or making a record of each package showing its sales check number, the department and salesperson from whom it came, the customer's name and address, and if a C. O. D. package, its value. The delivery sheet is the store's record of merchandise going out.



Such a record, it has been found, is necessary as a means of checking up complaints from customers. Sheet writing is sometimes done by the delivery men themselves and in other cases by other employees. As the sheet writing is done, the goods are moved from one part of the route bin to the other end from which they are removed and placed in the delivery vehicles.

The activities of parcel collection, routing, sheet writing, and layout in preparation for delivery require considerable space. A delivery department also requires space for delivery wagons to back up to their proper bins, space for returned goods, safekeeping space for goods to be held for future delivery, and space for delivery containers such as baskets, boxes, crates, and so on. In congested centers in large cities such space is exceedingly valuable, and the problem of ingress and egress of delivery vehicles to the delivery department is exceedingly difficult. Sidewalk loading of delivery wagons, formerly practiced everywhere, is now impossible in dense traffic streets, and even where possible is somewhat undesirable because of the tendency to create congestion and to give a bad impression to shoppers who may be passing, in addition to which, there is also always the danger of theft and pilferage where many people are passing.

**Remote Delivery Stations.**—To obviate the difficulties, to save the valuable space of the store, to secure more room at lower costs and, at the same time, ample space for storage and other delivery activities, many department stores in the larger cities have, within recent years, established remote or distant delivery stations. Under systems with remote delivery stations goods to be delivered are collected from the store without attempt at routing periodically throughout the day. The trucks hauling these goods are rushed to the remote delivery station where the regular processes already described take place.

Remote delivery not only reduces the congestion at the

store and saves valuable space within the store but also saves the time of delivery cars and drivers who would otherwise have to push their way through city traffic, and permit all operations preparatory to delivery to be carried on more efficiently. Actual deliveries are made from the remote delivery stations in the same manner as from the store itself where no such stations are provided. The remote delivery station is usually located at some point easily reached from the store but at which land may be obtained cheaply or rents are low. In some instances the remote delivery station is established in connection with the store's warehouse or storage facilities, in which case only merchandise samples of heavier goods are carried in the store and deliveries to customers are made from the warehouse instead of from the store. Workrooms, if such are conducted in connection with the store, particularly in such lines as floor coverings, draperies, furniture, upholstery, and others that require good light and ample space, may be removed from the store itself and included in the plant housing the remote delivery station.

Department stores that offer fur storage facilities may likewise include their fur storage vaults and refrigeration equipment in this building. It is also usually possible to provide much more adequate space in a remote delivery station building for motor vehicles, repairs, storage room for parts, paint shop, storage space for motor vehicles used during peak business periods, and so on. The remote delivery plant may also be the best location for any manufacturing carried on by the store. All of these forms of services require less expensive rental space than available within a retail store. All may be used not only more economically but also more comfortably and efficiently in a specially-built remote building.

**Delivery Personnel Organization.**—The most important factor of a delivery organization is its employees. Delivery men represent the store to the consumer in the consumer's own



home. The contact of delivery men with customers may make or break the goodwill of the store. Consequently, the importance of securing the right kind of employees and of proper training cannot be overemphasized.

Delivery employees, until a few years ago, were hired by the head of the delivery department or by the superintendent of the store, under whom the delivery department was organized. More recently in stores with well-organized personnel departments, at least the first sifting candidates for positions is handled by the employment department and final approval is given by the head of the delivery department. In the employment of delivery men, job specifications and trade tests such as packing knowledge and motor car operation can be effectively used. Appearance, manner, quickness in action as well as character, are highly important qualities.

Efficient delivery requires able delivery men. Much low-salaried help may, under proper supervision, be employed in the internal or preparatory work for delivery, but economizing in hiring delivery men usually turns out to be no economy at all. In some delivery organizations it is the practice to supply each driver with a helper. The helper not only assists in making deliveries but acts as an understudy for the driver and may in emergency be promoted to this position.

Delivery men are usually paid a straight salary. It would be difficult to work out any form of remuneration based on the commission system. There are, however, a number of stores that have established bonus plans. These usually provide a stated bonus of a certain number of dollars per month for a perfect record. One store allows a bonus of $12 a month. Errors due to poor delivery, instances of discourtesy, giving wrong information on return such as not at home, or no such number, loss or damage to parcels by careless handling due to driver, and so on, are penalized by charges ranging from 25 cents to $1 or more each, which are subtracted from the

bonus. Similarly, other penalties charged against the bonus include infractions of such rules as using tobacco or drinking while driving a car, using improper language, using the car for any other purpose except for the business of the company, carrying persons on car without permission, failure to collect on C. O. D. packages, arguing with customers, insolence, and so on. If the delivery man has failed in none of these respects during the month, he receives, in addition to his salary, this full bonus, otherwise he gets the difference between the total bonus and the total penalties.

**Training.**—The delivery department offers one of the most concrete and difficult opportunities for the demonstration of the value of training. There is work to be done in certain ways and the method of doing the work can best be taught by educational methods. First of all, outside delivery men, for example, must learn how to handle their cars. Next they must know how to load them and how to make deliveries. Finally, they must know how to represent the store to the store's customers.

New delivery employees may be carefully drilled by individual instruction, or by the class methods, in store rules and policies in methods of handling difficult cases, and in the operations of the delivery department.

Some of the larger stores have found it advantageous to set up actual detailed descriptions in black and white of the various kinds of work to be done in the delivery department, manner and spirit in which it is to be conducted. Such instructions constitute a delivery department system manual. The following topics suggest the scope of treatment in such manuals:

1. General duties of delivery men.
2. Rules of conduct—attendance, clothing or uniforms, appearance, rules against smoking, bad posture, running over lawn, noisiness, using customer's phone, other people riding on trucks.
3. Care of the car, stopping and starting, appearance of the car, speed, tire pressure, lighting, what to do in case of mechanical trouble.
4. Verification of packages, storage, and loading.
5. Handling of packages, delivery to customers
6. Handling C. O. D.
7. Handling return packages.
8. Delivering furs and handling fur calls.
9. Reporting complaints.
10. Traffic laws and their observance.
11. What to do in case of accident.
12. Condition of truck report.



**Records.**—Careful record making and record keeping is an essential measure to effective management of delivery operations. In addition to the delivery sheets written up in the route bins, special records are usually required to handle C. O. D. sales. Delivery men are charged with C. O. D. parcels and must, of course, bring the money back for them or bring back the parcels themselves. Any loss on C. O. D. merchandise is charged by most stores against the delivery men.

Records are carefully kept of complaints reported by customers to the delivery men and likewise of complaints reported at the store or elsewhere against delivery men. Still other records are kept of breakage and damaged goods and, finally, complete running record on equipment covering all items over which the delivery man has any responsibility.

Delivery expenses as is the case with all other retail store expenses, are usually quoted as a certain percentage of net sales. Presented in this way, delivery expenses for various types of business range from nothing at all in cash and carry business to 10%, 15%, or even 20% of net sales. The expenses for the delivery of coal and ice run from 12% to 15% of sales. Similarly, the expenses for delivery of ice cream average 15%. Milk deliveries cost on an average of about 12%, and bakery deliveries as high as 18% to 20%.[2]

[2] Economies in Retail Service, published by Commercial Economy Board in 1918, p. 7.

By reference to the tables presented on retail expenses in the chapter on expenses, it will be seen that drug stores had the lowest averages for the expenses of delivery; and meat, groceries, and furniture the highest delivery expenses. Drug stores average .01% while the other three types of stores have delivery expenses ranging upward as high as 2½% and 3%. Department stores with sales over $1,000,000 a year, according to the 1928 report of the Harvard Bureau of Business Research, showed an average delivery expense of 1.2%.

Unless properly interpreted, facts such as cited above are likely to be misleading indicators of the actual cost of delivery. A delivery expense of 1.2% of net sales in department stores is possible only because a large proportion of the goods purchased is carried by customers. Actually, the costs of making deliveries range from 5 or 6 cents up to 30 cents per package. The average cost of delivery in department stores in the United States is probably not far from 15 cents per package. Figures are not available, so that it is not possible to state what proportions of total sales made by department stores are delivered nor what the average sales of delivered goods are in comparison with the average sale of all goods sold. The average sale in department stores runs about $2.50, so that a department store having sales amounting to $2,500,000 a year usually has about 1,000,000 transactions per year. In all likelihood the average value of delivered sales runs somewhat higher than sales carried out by customers, but, if it may be presumed for purposes of illustration that the average sale of delivered goods amounts to $2.50, and the cost of delivery 15 cents, then the actual delivery expense on goods delivered amounts not to 1.2% of sales but to 6% of such sales, all classes of goods considered. This is probably a fair approximation of department store delivery expense on delivered goods. The reason why delivery expenses amount to only 1.2% of sales is because most purchases are still taken by customers.

If the trend, already noted, toward increasing proportions



of delivered goods continues unchecked, it is clear that the ultimate delivery cost in department stores will approach 6% of sales. There is no indication that the time may ever come when all goods purchased in department stores will have to be delivered so that the rate of expense for deliveries in relation to total sales will always be somewhat less than the maximum possible rate. There is also the possibility that improvements in delivery methods may continue, so that the maximum delivery rates may be reduced somewhat below the tentative, average 6% rate suggested here.

To arrive at the costs of delivery careful cost accounting systems have been devised. The National Delivery Association of the National Retail Dry Goods Association has been a leader in the development of such cost systems. It is difficult to find any branch of retail store activity that has received such careful attention not only from accountants but also from engineers aiming at accurate records and also more efficient operation, as has the delivery department.

The units against which delivery costs have been charged include not only the per package cost referred to above but also costs of operations for cars per day, costs of operations per mile, costs of operation per stop, and so on. All of these cost units have their use but the cost per package when analyzed as indicated in the next paragraph probably has the widest use.

**Prorating Delivery Charges to Departments.**—Average delivery expense per unit of packages, time, or distance covered, such as described above, even when accurately determined, may be exceedingly misleading. Certainly the cost of delivering a spool of thread is not comparable to the cost of delivering a davenport and, yet, the average costs of delivery, as indicated above, may be 15 cents per delivery.

The delivery of a davenport includes careful packing, special delivery van space, two or more men to handle it, very

often the necessity for unpacking and placing it in the customer's dwelling or apartment. To consider a charge of only 15 cents for this service is obviously absurd. It is likewise almost equally absurd to consider a charge of 15 cents for the delivery of a 5-cent spool of thread. The actual cost of delivery of the davenport must run into dollars, while the cost of delivering the spool of thread must be only a few cents.

One of the purposes of cost accounting is the distribution of expense in such a way as determines the exact costs of deliveries of packages of different sizes and character, or at least to reduce average expenses per delivery down to departments so that each department and section may properly be charged with its fair share of such expense, in other words, to stand on its own feet so far as expenses are concerned. Computing the detailed delivery expense for each package handled is according to all present-known methods of cost accounting impracticable in retail store work. The cost of such detailed accounting would greatly increase the expense of delivery and retail overhead expense is now so high that any abrupt addition such as this would prove the ruin of the business itself. It is easier and perhaps fully as useful to compute the delivery expenses that may be properly charged to each department. It has been suggested by competent delivery superintendents that the costs for the various departments may be determined by charging each with an expense sufficient to cover the packages coming therefrom, after determining the average package and average expense of delivering this package the only records needed are the numbers of packages delivered for each department.

It has also been suggested that all goods delivered be classified for delivery purposes in the same way as railway freight is classified. Various bases have been suggested for such classification as weight, cubic feet of space occupied, distance carried, and work required in connection with delivery. Classifications based on size and weight are now in use in some



stores. It is not known whether the suggestion to consider delivery distance, that is, by zones, has ever actually been given a trial in the retail store field.

The easiest basis of classification is by size. One method is to rate all packages up to the size of a shoe box as classification 1. Packages up to the size of a sweater box, 1½, and packages of the size of a hat box and over, 2. Under this classification practically all parcels going out of the yard goods departments, silverware, men's furnishings, hats and caps, sweaters, knit underwear, and so on, are rated as class 1½. Men's and women's apparel, furs, blankets, and boys' clothing are classified as 2, while all small goods packages are classified as 1. When the total expenses for the delivery department have been found for any given period they are then charged against the various departments in the store in proportion to the number of parcels delivered for each department. Such parcels are weighted by the classification numbers just given. This method roughly approximates the cost of delivery.

It is clear that any accurate distribution of delivery expenses will show a very high delivery expense rate for certain departments such as house furnishings. A customer may purchase a tin or enamel dish or pan in this department at a cost of 50 cents and the delivery expense may well amount to from 15 to 20 cents. A proper method of prorating delivery expenses may show the department store that it is practically impossible under present conditions of competition and pricing of such goods as house furnishings to make any net profits on them at all. Handling such goods may prove of value in holding trade that might otherwise go elsewhere. It may be profitable to the store to lose money by delivery in such departments if by so doing greater profits may be earned in other departments. The danger is that many retailers carry goods on which the delivery costs are enormous, but lacking proper accounting do not know that every sale results in a loss. It is important that the accounts should show what the exact costs

are and then the management may determine soundly and on proper grounds whether it cares to continue carrying goods requiring high delivery costs or not, or whether the policy of free deliveries on such goods may not require modification.

In conclusion, it may be pointed out that giving up lines that have been unprofitable because of high delivery expenses is not an uncommon occurrence. Entire departments have been eliminated for this reason: more often the troublesome, high delivery expense items have been the ones to be eliminated.

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# CHAPTER XIX

## CUSTOMERS' COMPLAINTS AND RETURNS

**Complaints and Their Adjustment.**—It is probably not possible to conduct a retail store so perfectly as to eliminate all complaints. All stores have them but, quite naturally, some stores have a great many more complaints than others, and there are likewise variations in the number of complaints from time to time.

Modern retail store policies open the doors widely to complaints from customers. The assumption that the "customer is always right," a policy upon which many stores operate, invites complaints. Such merchandising policies as unlimited guarantees of goods, and that the "customer must be satisfied," likewise make it easy not only for customers to criticize but to compare the services of various competing stores in a critical way.

Some of the complaints that come to retail stores are ridiculous and absurd, others are pathetic, still others are crooked. Most of them, probably 90% or more, whether well-founded or not, are sincere, and a large part of these are based on just grounds. Some years ago while Thomas A. Edison was visiting a manufacturing plant, its owners invited his criticism of its methods and asked him to indicate what part of the plant he would like to visit first. His reply was "Show me your scrap heap." The scrap heap in a manufacturing plant represents its mistakes. The complaint department or, as it is more euphoniously called, the Bureau of Adjustment, is the retail store's scrap heap. Most complaints represent mistakes of the store either in merchandise or service.

A careful consideration of the causes of complaints of cus-

tomers, together with prompt improvement wherever weaknesses are discovered, is necessary to the maintenance of proper trade relations and to holding public goodwill. Through the careful analysis of complaints the store may often learn much about its errors in policies and methods, and consequently take steps to reconstruct its methods to produce better results.

It is not urged that the study of complaints is the ideal way to determine what to do next. A retail store needs other and less painful methods of tracing consumer reactions toward the store. Changes should be noted and corrections made, if possible, before the complaints occur, but, if it is not possible to forestall complaints, the store should try to learn from the blows it receives, for complaints do indicate the changes in consumer demand. A retail store that does not make constructive use of the criticisms and complaints received from consumers can scarcely hope for anything but more complaints and declines in business.

**Centralized Versus Decentralized Handling of Complaints.**—There is a wide difference of opinion among even the most expert and successful retail store managers as to whether customers' complaints should be handled through a centralized bureau of adjustment or directly by people in the individual sales departments where the sales were made of services rendered to the dissatisfied customers. Centralized management and control of complaints in a bureau of adjustment provides such advantages as impartial, judicial, diplomatic handling of customers. Such an impartial attitude as the store may desire in the handling of complaints, it is urged, cannot be assured in the sales departments where salespeople and even buyers may bristle and argue with the customer over the justice of their contentions, usually with the result of heightening the ill-feeling that caused complaint.

It takes time to listen to complaints and to make the necessary investigations. Salespeople on the floor, or even buyers,



scarcely have the necessary time to meet these requirements. Listening to complaints over the counter, often in the presence of other customers, does not commend itself. The executive in a centralized bureau of adjustment may have a special office suited for the purpose out of the rush of sales traffic where the problems of the complaint and its adjustment may be properly handled.

Finally, a centralized bureau of adjustment with suitable records offers a means through which chronic kickers and deadbeats may be detected and their depredations on the store's liberal policies checked. It is also somewhat easier through centralized management of complaints to secure the necessary records of such complaints, which may in turn be studied and used in formulating the store's further policies.

Decentralized handling of complaints has its advantages, among which is the view that customers usually and quite naturally bring their complaints to the department and to the employee, if possible, where the cause of the complaint originated. From the customer's standpoint this is the proper channel. Being sent elsewhere to discuss the complaint kills more time and may add to the irritation. Furthermore, if there happens to be a waiting line outside of the door of the head of the bureau of adjustment there is further loss of time and more irritation.

Where salespeople, subject to the supervision of a floor manager, have the authority to handle complaints, it is usually possible to effect an exchange of goods instead of the necessity of making cash refunds or giving credits. If the salesperson has been properly trained in the policies of the store on how to meet complaints and make proper adjustments, this is probably the quickest and most satisfactory solution both to the customer and to the store. This method requires that the salesperson should hear the complaint and suggest the adjustment, but that the final approval for such adjustments be given

by the head of the department or the floor manager in that part of the store.

The difficulty of decentralized management of complaints, as already indicated, is the tendency of the salesperson and even the buyer to resent and oppose easy settlements or adjustments with complaining customers. Such adjustments usually cut down the sales records of the salespeople of the department. Such adjustments, therefore, reduce the earnings of the salespeople of the department, so that there is a real personal economic reason for opposition to the complaining customer. To overcome this difficulty careful training and supervision are necessary. The training may consist of a careful explanation of the policies of the store, the harmful effects of undiplomatic adjustments, and the alternative of better selling to reduce the number of complaints. Proper handling of complaints presupposes an ability on the part of salespeople which is probably greater than many of them possess. To carry out the management of complaints on a decentralized basis means that the store must begin by having better salespeople, more carefully trained than is usually the case. So while decentralized management and handling of complaints is best in theory, in practice it has been more advantageous to take it off the sales floor and let it be handled by a central bureau.

**Causes of Complaints.**—Customers' complaints arise from a great variety of causes. Some of these are due to dissatisfaction with the merchandise, others to errors or mistakes in the service of the store, and still others are due to misunderstandings. Store service may be at fault in the selling department through such errors as wrapping up and sending the wrong merchandise, making mistakes in the writing of the name and address, or in computations of the cost, promising deliveries which the store cannot fulfil, or in allowing merchandise to go out that is defective.

Complaints may arise as a result of mistakes, careless han-



TABLE 26. CAUSES OF COMPLAINTS

I. SELLING DEPARTMENT
1. Wrong merchandise.
2. Defective merchandise.
3. Merchandise left out.
4. Mistakes in price.
5. Misunderstandings of price.
6. No record of sale.
7. Order not filled.
8. Delay in filling order.
9. Overcharges due to error or claim of customer that goods are sold for less elsewhere.
10. Incorrect delivery or shipping instructions.
11. Merchandise out of stock.
12. Broken promises.
13. Improper alterations or repairs.
14. Failure to credit return merchandise.

II. WRAPPING AND PACKING DEPARTMENTS
1. Wrong merchandise wrapped up.
2. Merchandise left out.
3. Sales check lost.
4. Improper wrapping, marking, or addressing.
5. Delay in wrapping.
6. Damaged in wrapping.

III. DELIVERY
1. Delay in delivery.
2. Loss in delivery.
3. Damaged in delivery.
4. Delivered to wrong address.
5. Package sent which should be handled as "will-call."
6. Failure to make wagon call as promised.
7. Goods lost in transit.
8. Overcharge or error on C. O. D. sales.
9. Complaint about driver; lack of courtesy or attention.

IV. ACCOUNTS AND RECORDS
1. Goods charged or credited to wrong account.
2. Errors in billing.
3. Remittances not promptly acknowledged.
4. Bills sent which have been paid.
5. Failure to change address when notified.
6. Bills sent in wrong envelopes.
7. Cash credited to wrong account.
8. Correspondence not promptly or correctly answered.
9. Dunning letters sent when claim is pending.
10. Credits not entered for goods returned.
11. Mail incorrectly addressed.
12. Refusal of credit in error.
13. Goods sent C. O. D. instead of charge.
14. Statement sent in error.

V. MISCELLANEOUS
1. Lack of courtesy or attention.
2. Goods sent but not ordered.
3. Not at home for package.
4. Poor telephone service.
5. Poor mail order service.

dling, or errors in the wrapping or packing departments, in the delivery room, or by the delivery men.

Many complaints arise over errors or misunderstandings in records or accounts including charges, credits, mathematical errors, statements sent in error, and so on.

The tabulation on page 565 will indicate the variety and scope of possible causes of complaints that occur in retail stores.

**The Proportions of Complaints According to Various Accounts.**—The preceding table gives the list of causes of complaints in great detail. The following table in somewhat condensed form presents an analysis of the causes of complaints of nearly 4,000 cases, actual occurrences in a large New York Store.[1] It will be noted that the outstanding cause of complaint is delay in delivery or non-delivery. These two causes account for more than one-fourth of all the complaints. Mis-

TABLE 27. CLASSIFICATION OF PRINCIPAL CAUSES OF COMPLAINTS WITH NUMBERS AND PERCENTAGES FOR EACH

| Types | No. of Complaints | Percentages |
|---|---|---|
| Not received | | |
| (a) Entire order | 1,090 | 27 % |
| (b) Shortage | 156 | 4 |
| (c) Wrong merchandise | 209 | 5 |
| Received damaged | 386 | 10 |
| Merchandise unsatisfactory | 232 | 6 |
| Overcharge | 82 | 2 |
| Claims credit (pd.) | 231 | 6 |
| Error credit | 121 | 3 |
| Inquiries | 163 | 4 |
| Account not credited | 624 | 15 |
| Locate remittances | 42 | 1 |
| Discount not allowed | 126 | 31 |
| Requests itemized bills | 166 | 4 |
| Charge posted wrong account | 101 | 2.5 |
| Inquiries R/A | 235 | 6 |
| Total | 3,964 | |

[1] *Women's Wear*, December 8, 1928.



takes in accounts come second: about 15% of the total number of complaints were due to the failure of the store to credit accounts properly. Merchandise received in damaged form accounted for 10% of the complaints, and merchandise found unsatisfactory 6%.

**Fundamental Causes of Complaint.**—Back of the direct causes of complaint, as listed, lie more fundamental causes such as the lack of system, or the fallibility of the store's system, and the frequent breakdowns and errors due to inefficient or inadequately trained employees. Obviously, many complaints of customers, particularly those based on unsatisfactory merchandise, are due to improper selling and in some cases overselling. Better retail salesmanship, more experienced, better-trained salespeople, and closer supervision, would certainly cut down a considerable part of such complaints.

Retail stores in general and department stores in particular are striving very hard to systematize their businesses to the point where the system rather than the individual people carries on the policies of the store. Good system is a great help; but it doesn't take the place of human beings. There is a happy medium of perfected system on the one hand, but efficient, capable employees on the other. Well-trained employees are needed to keep the system from undoing itself.

The analysis of the causes of complaints in most retail stores shows that a very large number of such causes originate in peak or rush sales periods. Under the stress of crowds of people, inadequate selling and overloaded service, customers select goods which they never should have taken, only to find out later on that they are unsatisfactory. Store-wide and general sales are accountable for a large percentage of customers' complaints.

**Methods of Handling Complaints.**—The retail store should invite dissatisfied customers to make their complaints. It is not only the complaint that needs to be eliminated—it is its prelimi-

nary cause. In order that the store may know the attitude of its customers it should make it as easy as possible for customers to tell of their difficulties with the store. If complaints are managed by a centralized bureau of adjustments, then this bureau should be located in a place easy for customers to find. A view once held by some retailers that it should be made as difficult as possible for customers to make their complaints, in some instances to walk up long flights of stairs to get to the bureau of adjustment and perhaps to overcome other impediments, only resulted in the rapid growth of competing stores with more sincere adjustment policies.

Speed in adjustment of complaints that are well-founded is essential to gain the customer's satisfaction and to hold her goodwill. Immediate adjustments, if possible, should be made. If further investigations are required after the customer's story has been heard, such investigations should be completed so that the adjustments may be made within the fewest possible hours.

The attitude of the person hearing the customer's complaint is a factor helpful in gaining the customer's confidence. This attitude should be patient, attentive, and respectful. In the establishment and organization of a bureau of adjustment it may be possible to take important psychological factors into consideration, such as having adjustment clerks of good presence, people who are big both physically and mentally, and who convey by suggestion their honest and serious intentions to help solve the difficulty.

Retail stores have generally found that it pays to have highly liberal policies in the handling of complaints. In the majority of cases in which the customer's complaint is honestly founded it is ordinarily not profitable for a retail store to go further than to get the facts of the case and to suggest a fair settlement, either in the form of an exchange of merchandise, a credit, or a refund. Complaints unjustly founded, when they do occur, require more time and adjustment ability. If, after all facts of the case have been considered and a fair adjustment



proposed, the customer still remains obdurate, the adjustment clerk then faces the alternative of making a concession that is unfair to the store in order that the customer may not be lost, or of taking a final stand, with the almost certain result that the customer will stop trading with the store. There are no rules to cover situations of this sort. In the case of obvious dishonesty perhaps the best plan is to state the facts plainly and indicate that the store no longer wishes that individual's custom.

**Records.**—The need for careful records has already been mentioned. The value of compilation and analysis of complaint records cannot be overemphasized as a means of guiding the store in its policies and methods. Most retail stores are continuously losing customers. Through extensive advertising and sales promotion it gains new customers only to have some part of these and others among its old customers lost because of errors or mistakes for which the store is responsible. It has been estimated that well-established, successful retail stores lose as high as 20% of their regular customers annually, and to continue its regular business volume at the same rate it must carry on sales promotion to the extent of securing at least as many new customers to take the place of those that are lost.

If the analysis of complaints may be productive in suggestions which, when put into effect, will cut down any part of this loss of customers, as it should, then all of the trouble and expense that may be incurred from such record keeping is worth while. Some stores make it a point to analyze in most careful detail what the causes and responsibilities are for every complaint that occurs. Many invite customers through advertising and by letter to tell of their difficulties with the store. A few go even further by sending personal representatives out to visit customers to find out what their exact feelings are toward the store.

Summaries of complaints are generally prepared in con-

venient form and submitted regularly not only to the chief executives of the store but also to department heads in whose departments the complaints originate. Continuances both in numbers and in types of complaints are carefully noted and increases in complaints of any kind, chargeable to any particular department, are matters which are brought definitely to the attention of responsible executives and employees. The main problem in connection with complaints is not only the loss of customers, which is in a sense irreparable, but the high expense added to the retail store's cost of doing business by the great number of returns of merchandise made by dissatisfied customers with requests for exchanges, credits, or refunds. The problem of returns and means of improving this situation will be discussed in the next section.

**The Return Privilege.**—The unlimited guarantees of satisfaction or money refunded, instituted by department store managers and many other retailers a generation ago, threaten to become Frankensteins in the retail business. These policies, so blithely established by a few stores in the '70's and more in the '80's and '90's, have developed to the point where a large part of the consuming public looks upon the return of goods to retailers as a right rather than as a privilege.

The problem of returning goods has been accelerated under competition among retailers by the adoption of such selling methods as conditional sales, memoranda sales, or sales on approval, of laying away merchandise in which customers may have expressed interest subject to the customer's later call, and finally, the growth of C. O. D. sales, all of which result in the return of much merchandise to the store's stocks.

The return privilege has become an increasingly difficult problem. The percentages of returns in retail stores increased steadily during the period from 1900 to 1910. In the years from 1911 to 1914, the proportion of returns to gross sales seems to have increased greatly. Agitation over the difficulties



and attempts to find solutions constituted one of the principal subjects discussed in retail trade associations at that time in all parts of the country.

During the period of the World War, the practice of returning goods declined considerably. During the years from 1910 to 1920, the *Dry Goods Economist* published many statements of individual stores showing the extent of returned goods both by stores and by departments within stores. The tendency clearly shown in these articles for returns to decline began about 1915 or 1916 and extended through to 1919 or 1920. Since 1920, the trend of returned goods has again changed and has moved higher than ever before. It is a common observation among department store men of this country that the volume of returned goods in proportion to total sales during the years from 1926 to 1929 was at least twice the amount of returns in 1919 or 1920.

**Impartial Studies of the Returned Goods Problem.**—As already indicated, retailers who have suffered from consumers' abuse of the return privilege have for many years made and reported their findings both individually and through trade associations. During the last five years the attention of several outside research organizations has been turned to this problem. One of the earliest studies was made by the research bureau for retail training in the University of Pittsburgh in 1926. Other studies were completed by the Bureau of Business Research of Ohio State University in 1928 and 1929. In 1927 the Harvard Bureau of Business Research added studies on the extent of the returned goods problem to their annual analysis of the expenses of doing business in department stores. Perhaps the most thorough study ever made by a retail trade association of this problem was conducted by the Boston Retail Trade Board under the direction of its secretary, Mr. Daniel Bloomfield.

**Volume of Goods Returned According to Recent Studies.**—In the Pittsburgh study, already referred to, the volume

of returns amounted to 12½% of the total sales in the lines studied in 8 stores included in the investigation. In the Ohio study, in which figures were obtained from department stores all over the state, it was found that returns amounted to 4.3% of net sales. By assuming, as was done in that study, that this might be taken as a representative percentage of returns for all classes of retail stores, it was estimated that the total annual number of returns for all department stores in the state of Ohio equaled not less than 1,500,000 valued at $10,707,000. Assuming that the same ratio of returns applies to all classes of retail trade, it was estimated that there were in all Ohio retail stores in 1927, not less than 11,000,000 returns valued at $74,000,000.

The Boston Retail Trade Board estimated that for 1928 the volume of returns for the 11 largest stores in Boston amounted to not less than $20,000,000.

D. F. Kelly, president of The Fair, of Chicago, at the close of 1928 estimated that returns amounted to not less than 15%, totaling $37,000,000 of the entire retail sales of the Chicago State Street stores.

In the report on operating expenses in department stores for 1928, issued by the Harvard Bureau of Business Research, it was indicated that in department stores with sales of more than $1,000,000 a year returns and allowances amounted to 8.5% of sales and in stores with sales under $1,000,000 a year, returns and allowances amounted to 2.4% of sales. In specialty shops included in this report having sales of more than $1,000,000 a year, returns and allowances amounted to 14.3%, and in specialty shops with sales under $1,000,000 a year returns and allowances amounted to 8.2%. Out of a total volume of net sales of 547 stores for 1928, reported by the Harvard Bureau of Business Research, amounting to $1,262,000,000, the total volume of returns and allowances amounted to $110,916,746.

During 1929, an intensive study of the returned goods problem was conducted by the Domestic Commerce Division of



the U. S. Department of Commerce. Figures were obtained from 431 department stores with aggregate sales of over $1,000,000,000. According to this study the returns on cash sales amounted to 6.8%, on open credit sales 21.1%, and on instalment sales 12% of sales. Stores with annual volumes of from $1,000,000 up to $10,000,000 a year showed an average percentage of returns and allowances on open credit sales amounting to 25.7% of such sales. The gravity of the problem may be indicated by the fact that this high percentage of returns and allowances represented an average for not less than 75 retail stores.

**The Costs of the Returned Goods Problem.**—The seriousness to the retail trade of a large amount of sold goods coming back from consumers lies in the increase in sales expense, the increase in markdowns, the reduced opportunities for selling the goods that are out in the hands of consumers, and the reduced turnover. When goods are returned by customers it means that practically all of the original time, energy, and expense in selling and delivering the goods have been wasted. This means a salesperson's time in selling; the wrapper's time in packing up the goods; the cost of packing materials; the loss of time of employees in the delivery department; the cost of the operation of the delivery, and, as so often is the case if the customer asks the store to call for the merchandise, the loss of time in calling for it; the cost of truck operation; the expense of returning the goods to stock, and the time of the accounting office force in charging and crediting.

In addition to the foregoing expenses the goods are often damaged in value for resale purposes. Opportunities for selling the goods are lost during the time while out of the store, which averages several days, and, of course, the longer the time out of the store the greater its loss. There is, furthermore, the loss of the use of capital tied up in the goods that are out in the hands of consumers and which will come back. In the

Ohio study it was estimated that not less than $1,500,000 worth of merchandise certain to be returned was constantly in the hands of customers. The returned goods problem upsets the even operation of the store's unit stock control and naturally reduces the rate of turnover enjoyed by the store.

**Losses and Disadvantages in the Over-use of the Returned Goods Privilege.**—The increase in expenses referred to above must of necessity form a part of the total costs of conducting the retail business, and as such make up an element in the price of the merchandise to consumers. The greater and more general the return privilege exercised, the higher these expenses will be and the higher the price of goods.

There is further the loss of time and expense to customers who must make arrangements to have the goods returned, sometimes to come back with them personally, to write or to phone about them, in the aggregate consuming an enormous amount of time. There is also the general objection to purchasing goods that have been returned by other customers and, finally, the health hazard from the purchase and use of goods which may have been in homes or hands which would make the goods liable to become carriers of disease.

**Classes of Goods Most Frequently Returned.**—The analyses of returned goods indicates that certain lines and kinds of goods are very much more susceptible to customers' returns than others. In most of the studies made, upwards of two-thirds of all returns occur in apparel, ready-to-wear, and apparel accessories. Table 28, page 575, shows the variation in percentages of goods returned by various departments found in department stores. High percentages occur in women's and misses' clothing, furs, waists and blouses, sweaters, corsets, and other similar lines. It may also be noted that there are high percentages of returns in furniture, rugs, carpets, draperies, musical instruments, talking machines, and radio. High



TABLE 28. PERCENTAGE OF RETURNED GOODS TO GROSS SALES IN DEPARTMENT STORES

(Summary of Study Made by National Retail Dry Goods Association for 1925. Figures Obtained from 196 Stores.)

| Departments | Sales Volume | | | |
|---|---|---|---|---|
| | Under $1,000,000 | $1,000,000 to $2,000,000 | $2,000,000 to $5,000,000 | Over $5,000,000 |
| | % | % | % | % |
| Silks | 1.00 | 1.60 | 2.80 | 3.50 |
| Velvets | .90 | 1.95 | 3.30 | 3.30 |
| Dress goods | .90 | 1.50 | 2.40 | 2.32 |
| Linens | 2.00 | 3.90 | 6.30 | 5.80 |
| Domestics | 1.40 | 2.80 | 3.07 | 5.42 |
| Laces—trimmings—embroideries | 3.10 | 4.50 | 5.40 | 6.13 |
| Neckwear—veilings | 6.00 | 4.90 | 9.80 | 6.70 |
| Ribbons | 1.90 | 2.75 | 3.20 | 2.10 |
| Notions | 1.46 | 1.90 | 2.40 | 2.11 |
| Toilet articles—drugs | 1.63 | 1.30 | 2.34 | 2.09 |
| Handkerchiefs | 1.65 | 1.70 | 2.00 | 1.50 |
| Silverware—jewelry | 4.15 | 5.00 | 8.87 | 7.10 |
| Leather goods | 4.50 | 5.61 | 9.40 | 8.30 |
| Umbrellas—parasols—canes | 3.00 | 3.50 | 4.90 | 4.00 |
| Art needlework—art goods | 2.52 | 3.73 | 5.60 | 5.47 |
| Men's clothing | 3.90 | 6.88 | 7.50 | 8.00 |
| Men's furnishings | 3.91 | 4.30 | 6.50 | 6.00 |
| Men's hats and caps | 3.76 | 4.50 | 3.55 | 4.00 |
| Boys' wear | 6.10 | 8.10 | 12.60 | 10.04 |
| Women's coats | 9.97 | 13.72 | 16.00 | 18.00 |
| Women's suits | 8.00 | 13.60 | 13.00 | 17.41 |
| Women's skirts | 12.95 | 14.33 | 15.00 | 17.49 |
| Women's dresses | 9.00 | 14.00 | 19.44 | 19.00 |
| Misses' ready-to-wear | 9.87 | 13.52 | 20.38 | 20.10 |
| Furs | 10.20 | 15.00 | 21.96 | 17.40 |
| Juniors'—girls' ready-to-wear | 10.00 | 10.00 | 16.00 | 17.65 |
| Waists and blouses | 11.60 | 14.50 | 20.15 | 20.00 |
| Sweaters | 11.60 | 13.31 | 18.00 | 15.65 |
| Millinery | 3.40 | 6.00 | 8.00 | 12.10 |
| Gloves | 2.64 | 3.86 | 5.58 | 5.70 |
| Corset—brassieres | 10.00 | 9.30 | 13.94 | 12.00 |
| Hosiery—women's—misses' | 1.90 | 2.33 | 4.00 | 3.59 |
| Knit underwear | 3.40 | 6.08 | 7.50 | 6.60 |
| Muslin underwear | 5.10 | 7.00 | 11.02 | 9.10 |
| Infants' wear | 5.75 | 8.60 | 11.70 | 9.91 |
| Petticoats | 8.00 | 10.00 | 12.60 | 11.78 |
| Negligees—aprons—house dresses | 9.30 | 9.25 | 16.90 | 14.07 |
| Women's shoes | 8.50 | 9.00 | 15.00 | 13.40 |
| Children's shoes | 6.45 | 8.98 | 11.00 | 9.00 |
| Men's and boys' shoes | 4.80 | 7.00 | 5.50 | 6.66 |
| Furniture | 8.50 | 11.10 | 16.40 | 14.64 |
| Rugs | 4.00 | 14.74 | 17.79 | 23.67 |
| Carpets—linoleum—matting | 4.60 | 10.50 | 11.54 | 12.60 |
| Draperies—lamps | 3.75 | 6.42 | 12.00 | 10.60 |
| China—glassware | 4.06 | 6.00 | 7.00 | 7.40 |
| House furnishings | 3.80 | 4.00 | 9.00 | 6.80 |
| Toys—sporting goods | 4.00 | 3.70 | 0.00 | 5.99 |
| Luggage | 2.70 | 5.00 | 7.10 | 6.07 |
| Books—stationery | 1.10 | 2.00 | 3.12 | 2.85 |
| Musical instruments | .... | 11.43 | 9.00 | 16.30 |
| Talking machines—records | .... | 11.70 | 8.00 | 15.32 |
| Radio | .... | 9.45 | 24.08 | 15.00 |
| Patterns | 1.30 | 1.00 | 2.75 | 1.00 |
| Basement | 3.80 | 4.65 | 5.03 | 6.38 |

percentages of returns are also to be noted in women's and children's shoes.

Low returns occur in the yard goods departments, notions, toilet articles, handkerchiefs, men's hats and caps, books, stationery, patterns, and so on. In some of these lines, especially in notions, toilet goods, drugs, books, and patterns, the percentages of returns may be low because of regulations prohibiting returns in these lines. Note should be taken that the figures presented in Table 28 are averages obtained from 196 stores, and that the ranges in returns occurring in individual stores in almost all departments are quite wide. Some idea of the range in return may, however, be obtained from the table in noting the percentage of returns for the different groups of stores classified by sales volume.

**The Rate of Returns Tends to Increase with the Size of the Business.**—The information presented in Table 28 is intended primarily to show the average rates of returns by departments in stores of various sales volumes. It will be noted that the lowest returns, with a few exceptions, are to be found in small stores with sales volumes under $1,000,000 a year. Generally speaking, those stores with sales volumes over $5,000,000 a year are the hardest hit by returns. The explanation for the tendency of returns to increase with the size of the business is quite probably that the larger stores are located in central shopping districts in which all sorts of methods to increase sales are practiced. In consequence of such aggressive sales methods the percentage of returns grows.

Individual comparisons of the sales of neighborhood and downtown specialty shops shows the same trend even where the sales are similar in amount. The downtown specialty shops almost invariably have higher rates of returns.

**Return Goods Are Higher from Charge than from Cash Customers.**—One of the outstanding facts from all studies of the returned goods problem, is that, so far as is known, higher



percentages of returns occur on sales made on credit than on sales made for cash. This view is in no case brought out more clearly than in the survey made by the Domestic Commerce Division of the U. S. Department of Commerce. Table 29, page 578, shows that the average percentages of returns and allowances on cash sales is less than 7%, on open credit 21.1%, and on instalment credit 12% of sales respectively.

The problem of returns is, therefore, peculiarly difficult for apparel and home furnishing stores and departments, for the larger rather than the smaller retail businesses and for the concerns that grant credit. It may be seriously questioned whether the cost of accounting and other expenses in connection with the operation of a charge account business may not add less to the store's total operating expenses than the increase in operating expenses, due to the high percentage of return goods that accompanies a credit business.

**Causes of Returns.**—During recent years definite progress has been made in localizing and classifying the causes of returns. From the standpoint of the functional operations of the store it is clear that the reasons for returns are to be found either in the merchandise itself, in the sales service of the salespeople, in the store's service, or the customer herself. Careful studies recently made indicate that a large proportion of the returns made to retail stores are not due to faults in the merchandise, mistakes in sales service, or errors in store service, but to customers' changes of mind or other reasons for which the customer is definitely responsible.

A study made of the causes of returns in the St. Louis department store, Stix-Baer & Fuller Co. in 1928, carefully classified, indicated that causes for returns were due to faults in the merchandise in 7.45% of the times, to faulty sales service in 13.47%, to store service in 3.20%, and to the customer herself in 71.35% of the cases. A number of other reasons for returns not definitely assignable to the foregoing

TABLE 29. RETURNS AND ALLOWANCES TO DEPARTMENT STORES, 1927, REPRESENTING TOTAL SALES OF $1,072,220,376

(From the Preliminary Report on Retail Credit, Published by the U. S. Department of Commerce, 1929.)

| Stores Having Sales of | Cash | | Open Credit | | Instalment Credit | |
|---|---|---|---|---|---|---|
| | No. of Stores | Per Cent Returns and Allowances | No. of Stores | Per Cent Returns and Allowances | No. of Stores | Per Cent Returns and Allowances |
| Less than $100,000 | 13 | 2.3% | 22 | 2.2% | 2 | 22.4% |
| $100,000 to $499,000 | 31 | 1.6 | 39 | 9.9 | 5 | 2.2 |
| $500,000 to $999,000 | 26 | 2.0 | 30 | 9.9 | 7 | 12.2 |
| $1,000,000 to $9,999,000 | 73 | 4.7 | 75 | 25.7 | 46 | 18.2 |
| $10,000,000 to $19,999,999 | 11 | 8.0 | 10 | 14.4 | 12 | 11.2 |
| $20,000,000 and over | 10 | 7.4 | 10 | 21.1 | 9 | 9.5 |
| All stores | 164 | 6.8 | 186 | 21.1 | 81 | 12.0 |

classification were grouped under miscellaneous reasons and made up 4.53% of the total number of returns.

In the Pittsburgh survey, responsibility for returns was placed upon the customer in 54% of the cases and upon the store in 46% of the cases. In the Ohio study it was found that customers were responsible for 57% of the return and dealers for 29%. In the remainder of the cases making up the total, it was impossible to assign the responsibility definitely to either customer or dealer. In the Boston survey it was found that customers were responsible for from 70% to 75% of the returns.

The types of reasons for returns included in the total of cases in which the customer was held responsible according to these studies were: change of mind, wrong size asked for, unclaimed, "will-calls," customers' mistakes in ordering, influence of other members of the family, and so on.

The reasons for returns of goods, as brought out in the Ohio study, are presented in Table 30. In this table the various reasons are arranged in order of value of returns. For



TABLE 30. WHY CUSTOMERS RETURN MERCHANDISE TO DEPARTMENT STORES

(A Summary of a survey of returns to 27 department stores during July–August, 1926, Made by the Bureau of Business Research, Ohio State University. Reported by L. H. Grinstead in *Retail Ledger*, 2nd Issue, February, 1929.)

| Reasons | Value of Returns | No. of Returns | Per Cent of Total Returns | Average Value |
|---|---|---|---|---|
| Customer's change of mind | $140,213.93 | 17,157 | 25.96% | $ 8.17 |
| Sent on approval | 103,771.86 | 8,382 | 12.68 | 12.38 |
| Wrong size asked for by customer | 78,627.09 | 18,057 | 27.23 | 4.35 |
| No reason stated | 39,259.54 | 4,414 | 6.66 | 8.89 |
| Other reasons | 26,667.92 | 4,445 | 6.72 | 6.00 |
| Wrong color | 17,533.31 | 4,103 | 6.18 | 4.27 |
| Wrong size sold (store's error) | 10,328.30 | 1,678 | 2.58 | 6.16 |
| Other imperfections | 8,912.51 | 1,602 | 2.41 | 5.56 |
| Unclaimed ("will-call") | 8,784.22 | 730 | 1.12 | 12.03 |
| Customer's mistake in ordering | 3,762.43 | 1,800 | 2.72 | 2.09 |
| Tearing | 3,710.84 | 728 | 1.10 | 5.10 |
| Fading | 3,060.14 | 464 | 0.71 | 6.60 |
| Delivered damaged | 3,015.12 | 660 | 0.99 | 4.57 |
| Wrong size marked | 2,224.68 | 493 | 0.76 | 4.51 |
| Delayed delivery | 2,148.88 | 317 | 0.45 | 6.78 |
| Ripping | 2,038.01 | 519 | 0.79 | 3.93 |
| Spotting | 1,118.16 | 116 | 0.18 | 9.64 |
| Shrinking | 853.60 | 95 | 0.14 | 8.99 |
| Over or undershipped | 596.32 | 263 | 0.40 | 2.27 |
| Wrong address | 434.13 | 82 | 0.14 | 5.29 |
| Stretching | 285.68 | 49 | 0.08 | 5.83 |
| Totals | $403,635.20 | 66,154 | 100.00% | |

each reason assigned there is also presented the total number of returns recorded in the study, the per cent that each number of returns bears to the total number, and the average value of returns. It will be seen that slightly more than one-fourth of all the returns are due simply to customers' changes of mind.

Customer responsibility varies somewhat with the various lines of goods handled. In the Ohio study it was found that while the greatest numbers of returns occurred in women's and misses' ready-made apparel and accessories, the highest percentage of customer responsibility for such returns occurred in men's and boys' ready-to-wear. A high percentage of cus-

tomer responsibility was likewise found in the return to such departments as women's apparel, accessories, and shoes. The lowest percentage of customer responsibility for returns occurred in dry goods and small wares.

**Attitude of the Public Toward Returns.**—Wherever the subject of merchandise returns has been called to the attention of the public or any group representative of consumers' interest it has usually been freely granted that the return privilege in American retail stores is very much abused. Various women's clubs have gone on record by resolution and otherwise in opposition to the abuse of the return privilege. Physicians and boards of health have generally urged the discontinuance of the return privilege on all goods of such a nature as might carry contagious disease. A special study of merchandise returns was made at the expense of and under the auspices of the western district of the Federation of Women's Clubs in Los Angeles among its own members.[2] Of the 280 club members from whom replies were received, 38% confessed to making unnecessary returns to retail stores. There was general disapproval for sales on memorandum or approval expressed in the replies, but nearly all stated that they would give their patronage to the store that gave return privileges rather than to the stores that did not. More than half of the replies stressed the inefficiency and, in some instances, the overaggressiveness of retail salespeople, claiming that these resulted in the return of goods.

The interest of the Domestic Commerce Division of the U. S. Department of Commerce in the returned goods problem is another instance of the relation of this problem to public welfare.

**Proposed Remedies.**—The earliest efforts to check the progressive development of the use of the return privilege by retail customers seems to have been made nearly thirty years

[2] Reported in *U. S. Monthly Labor Review*, October, 1927.



ago. In the years following 1900, local retail associations from time to time attempted to secure agreements among their members to refuse to sell on approval unless the goods going out into the homes of the customers were accompanied by a representative of the store and to refuse to accept returns from customers.

The assistance of health officers was frequently secured in establishing rules prohibiting return or exchange of all goods affected by sanitary consideration, such as hair goods, rubber goods, millinery, underwear, bedding, and so on.

Another device frequently urged and occasionally attempted was to refuse to accept returns if tags or seals purposely attached in prominent places had been removed. The object of this device was to prevent unscrupulous customers from buying merchandise to be used at some party or function and then to return them for credit the following day. The seals attached to the merchandise, it was felt, would prevent such use of the goods.

Another early method intended to cut down the percentage of returns was to appeal to the public through advertising, asking for the cooperation of consumers. Such advertising appeared in numerous places very frequently during the years from 1910 to 1916. In many cases the advertising space for this purpose was contributed without charge by newspapers as their share in the movement to reduce the evil of returns.

Another variation in methods of publicity used to reduce returns was to appeal to the imagination and sympathy of customers by publishing very pathetic and sometimes heart-rending stories of the hardships placed upon poor salesgirls who were trying to support not only themselves but invalid mothers and large families on their meager salaries, only to have their salaries reduced and held back by unreasonable returns from customers.

Other retail associations boldly passed resolutions prohibiting their members from accepting returns if goods were held

for more than a certain time. In St. Louis an attempt was made among the department stores to make this a 24-hour period. In other places 48 hours, in still others 36-, 56-, and 72-hour limits were proposed.

All of the foregoing efforts undoubtedly had some slight favorable effects, for there were many reports by merchants at their trade association meetings hopefully describing the operation of these methods. None of these methods, however, were sufficiently effective to check the growing movement of returns that took place following 1920. Again, retail associations were called upon to redouble their efforts in an effort to check the evil tendencies of customers' returns, but generally to no avail.

Probably in no large community has more effective work been carried on to lessen returns than in Boston, largely as a result of the cooperative efforts under the direction of the Retail Trade Board. The Boston campaign against customers' returns is directed both at the retail stores and the public. Brief, carefully prepared leaflets and pamphlets of information and instruction have been issued both to customers and salespeople showing how to use and get satisfaction out of merchandise that is ordinarily highly subject to returns. Great emphasis is placed in the Boston campaign on proper education of buyers, section managers, and salespeople. In order to sell the goods thoroughly and insure the complete satisfaction of the customer in the first sale rather than to depend on the return privilege as a makeshift, honor rolls of salespeople with low percentages of returns on their sales have been prepared and are regularly published. An interesting little playlet entitled "Return It by All Means," has been put on by several stores to teach its employees that emphasis is needed on selling in order to reduce returns.

The consumers of Boston have been told about the difficulties of returns and asked to render their cooperation. Lectures have been made before the various women's clubs, special articles on the evils of returned goods have been featured on the women's pages of the Boston newspapers, and radio talks have been given. The Better Business Bureau has run special advertising in the newspapers against unreasonable returns, reaching a circulation of over a million people.



Other retail associations, both local and national, are bending their efforts toward lessening the growing evil of returned goods. The National Retail Dry Goods Association has inaugurated a special campaign of study and effort among its members to check the movement. The members of the Garment Retailers of America have likewise interested themselves in campaigns opposing the extension of returns.

The problem of customers' returns has grown to a point where it probably has become responsible for the addition of several points in the percentage of operating expenses among present-day retail stores. It has gained such a hold on the habits of many customers that it may be beyond any remedy that may be applied by retailers themselves. The cooperation of the public is absolutely necessary in order that a healthy attitude toward returns may be secured.

The main difficulty with the problem of customers' returns is that retail stores do not care to take the stand of doing away with all returns. Such a suggestion would be impracticable. This practice would not be in line with present-day trends in merchandising. The aim of retailers struggling with the return goods problem, is to reduce what they term the abuse of the return privilege. Just what the line is between the proper and improper use of the return privilege is exceedingly difficult to define. Certainly it varies in the minds of different retailers. The efforts of retail associations, therefore, are somewhat indefinite and perhaps too general to secure the best effect.

All are interested in cutting down the high percentages of returns, but just how an individual customer, insisting that the store must take back goods which she has ordered, is to

be treated, is a matter that has not been formulated by any retail group. As it works out, those customers who are most conscientious and who ordinarily give the least amount of trouble regarding returns take the suggestions concerning the evils of returned goods most seriously, while customers who are confirmed, habitual repeaters at retail stores' return departments continue to exercise the right of return and to have their goods accepted by stores with little question.

Considerable observation of the operation of retail stores in relation to this problem leads to the conclusion that resolutions against the extensions of the return privilege passed at retailers' meetings are usually forgotten by the individual retailers when confronted by irate customers whose trade is otherwise highly valued by the store. Furthermore, it seems almost a general rule that those customers who ask for the most in way of privileges such as returns of goods get the most, and the burden of expense resulting therefrom must unfairly be borne by the fair, conscientious customers who rarely, if ever, call upon the custom to correct even its own errors.

Unquestionably, improved training of retail salespeople and closer supervision can do much in the individual store to lessen the returned goods evil. Approval or memorandum sales, if used at all, should only be used as a last resort and subject to the approval of the head of the department. Salespeople properly trained may insist successfully that garments, shoes, and other types of merchandise that should be fitted must be tried on before leaving the store.

Wrong sizes that occur as a reason for returns in a great many cases may in part be eliminated by store fitting and, as has been found by several retail stores, notably William Filene's Sons Co. of Boston, by careful check-up of the size designations and size gradings of the merchandise itself. Without such careful check-up, the manufacturers of merchandise grow careless and attach size tags which are often meaningless.

Better lighting, particularly the use of lighting that gives



daylight effect, is another means of securing more satisfactory selling in all cases in which color is important. Goods that are defective in any way should be sold as defective and the defects carefully explained to the customer.

High-pressure insistence is a sure means of increasing returns. This may be reduced by better selling methods. Many customers seem to think that they are helping a salesperson by buying something on insistence and then when the goods reach their home the impulse of charity disappears and the goods are returned to the store.

Without attempting to draw an exact line between what constitutes an abuse and what a proper exercise of the return privilege, it is probable that under modern methods of merchandising the return privilege has an important and permanent place which cannot be materially reduced without endangering the service of the store to its clientele.

It is probable that the abuse of the return privilege in many communities is due to the carelessness of a relatively small proportion of customers who should be effectively discouraged in the same manner that credit dead-beats are now discouraged by retail credit departments. In fact, it has been found in numerous cases that those customers who are inclined to abuse the return privilege are also likely to be very careless in the settlement of their bills. One effective means of checking the abuse of the return privilege is by a closer check-up of the credit standing of the customer.

Retail credit bureaus function very effectively in many communities. Through the services of such bureaus losses from bad debts are greatly minimized. It may be suggested that retail credit bureaus or similar organizations be made the clearing house for retail store experiences with customers who abuse the return privilege as well as those who abuse the credit privilege. This would be an effective cooperative means of isolating and eliminating the worst cases of returned goods.

# CHAPTER XX

## RETAIL CREDIT SALES

**Extent of Credit Service to Consumers.**—A large proportion of all retail stores in this country conduct at least a part of their business on a credit basis. Very large quantities of certain types of goods such as automobiles, pianos, furniture, radio, clothing, jewelry, diamonds, and watches are regularly sold to consumers on credit either on a regular or charge account basis or on a deferred or instalment payment basis. Much of the groceries, meats, fruits and vegetables, milk, and other dairy products are marketed to consumers on a credit basis.

**Reasons for Retail Credits.**—The credit business is deeply entrenched in the buying habits of the people. In many sections retail store credits have been and still are essential to the economic life of the people. In the agricultural regions, farming was formerly so organized as to make credits necessary each year until crops were harvested and marketed. This form of economic organization of affairs is slowly passing away, but still prevails to a considerable extent in the South and Southwest.

There is a convenience in buying for credit that many people appreciate and therefore desire. Families who receive their incomes at stated intervals, as for example monthly or quarterly, find it highly convenient to make their purchases as needed but to settle the bills for them at the time of receiving their own incomes. The receipt of all of the household bills at one time each month, despite the cartoonists and the jokesmiths, is in itself a desirable convenience to many customers.





In families in which the common purchases are frequently made by children, or in other households in which servants are employed who make purchases, it is desirable to have the convenience of buying on a charge basis. Finally, it saves the time of the purchaser in making payments and waiting for change, which makes unnecessary the carrying of considerable sums of money with the risks of loss, and so on.

From the standpoint of the retail store the charge account business is usually steadier and more dependable than a cash business. Charge customers tend to become regular customers representing a stability of goodwill not always found in cash stores. A list of charge customers is a most valuable sales promotion channel through which notices may be sent of new and seasonable goods as well as of clearance and special sales. Usually charge customers represent greater buying power than cash customers.

**The Disadvantages of the Credit Business.**—There are, however, certain disadvantages in a charge business. The privilege of a charge account sometimes is a temptation to careless buying so that, unless carefully watched, some consumers buy beyond their means, with the result that bad consumer habits are formed and losses are incurred both by consumers and dealers. The practice of returning goods found unsatisfactory after they have been delivered to the homes of consumers is an evil of huge dimensions. Merchandise returns add a heavy burden to the already heavy costs of doing business. The general experience of retailers is that charge account customers are more likely to take advantage of the store in the matter of returns than are cash customers.

Credit to customers ties up the store's capital. It is not uncommon to have an amount of charge accounts equivalent to twice, or even three times the total value of all merchandise in stock. The credit business, therefore, requires considerably more capital than does the cash store. The capital tied up in

accounts receivable from customers is usually unproductive in interest and it is doubtful whether, under present competition with cash stores, it may be possible to add a gross profit margin to the prices of credit goods that will cover this item.

Finally, there is the increased expense of handling charge accounts due to additional accounting, collecting expense, interest on the capital tied up in charge accounts, and the losses from bad debts.

Among the chief causes of failure in the retail business are overextension of credit and consequent credit losses. In the Louisville Survey of 1928, it was found that of 30 stores selected for special study because they were close to bankruptcy, a large part of sales were for credit, and credit losses were abnormally high, averaging nearly 6% of total sales, over 8% of credit sales, and in individual cases ranging as high as 33% of sales as against an average of 1.6% loss to total sales and 2.8% loss to credit sales in ordinary successful stores. It was also found that the smaller the business the higher its credit loss.

**General Declining Trend in Credit Sales.**—Considering the long-term trends in the retail business, one of the most remarkable developments is the change from long to short-period credits and from credit business of all kinds to sales for cash. A generation ago nearly all retail business in the United States, particularly in the agricultural sections, was conducted on a long-term charge basis. Gradually the change has been made from six-month and annual settlement dates to thirty-day credits. The retail credit system is still very important in certain sections of the country and on certain lines of goods.

There has also been a steady growth in most parts of the country in the volume of cash business. The rapid development of chain stores and of mail order houses is an adequate sign of the growth of the cash business. Numerous independent retailers have likewise changed from a credit to a cash basis.



A report issued by the Domestic Commerce Division of the U. S. Department of Commerce for a group of 1,097 independent retail grocery stores located in various parts of the United States, with total sales of $107,836,000, showed that 254 of these stores, or 23.1%, sold for cash only, and 843 or 76.9% sold for both cash and credit in 1927.

Including all stores, both those selling for cash only and those selling for both cash and credit, it was found that 43.7% of the total sales were for cash and 56.3% were for credit.

Considering only those stores which did both cash and credit business, it was found that their cash sales were 36.4% and their credit sales 63.6% of their total business.

Note should be taken that this study of grocery stores included no chain grocery stores, most of which sell for cash only and which, if included, would raise the proportion of cash sales to retail volume very materially. Probably half or more of the food sales of the country, all channels considered, are made for cash.

Information compiled from 440 department stores with total sales of $1,315,000,000, by the U. S. Department of Commerce, at the request of the National Retail Credit Association, showed that in department stores for 1927, 27.4% of the sales were made on open credit, that is, on regular charge accounts and 6.1% on instalment credits. Cash sales amounted to 66.5% of the total.

In other retail stores handling other types of merchandise the percentages of credit sales to total sales are as follows:[1]

| | |
|---|---|
| Men's apparel stores | 44% |
| Furniture stores | 94 |
| Women's apparel stores | 59 |
| Jewelry stores | 55 |
| Shoe stores | 40 |
| Hardware stores | 75 |

[1] Carl N. Schmalz, "Operating Statistics for the Credit Departments to Retail Stores in 1927," Bureau of Business Research, University of Michigan.

In a survey of consumer conditions in Zanesville, an Ohio city of 30,000 population, and 36 other American communities,[2] it was found that 71.1% of the families in Zanesville maintained no charge accounts whatever. In the 36 other cities in which studies were made for comparison with Zanesville, an average of 50.9% of all families maintained no charge accounts.

If these figures are typical, they mean that half or more of the people of the country do all or most of their buying for cash. Certainly when one considers that most of those who do have charge accounts continually buy some goods for cash, and that a large part of the consuming public buys for cash only, it may be conservatively estimated that more than half of all the goods sold to consumers are now sold for cash.

It must not be assumed, however, that the declining trend in the proportions of the retail business done on credit has been continuously regular. There have been certain years, in fact periods of years, in which the cash business has gained rapidly, and others in which the promotion of charge account business has shown marked gains. During the past ten years the volume of charge account business in department stores has, according to such records as are available, shown more rapid gains than has the cash business. In fact, were it not for the gains made in credit sales, many department stores would have shown total sales declines. It is an open questio. however, whether the gains made in charge sales in department stores have not been more than counterbalanced by the gains in sales in the all-cash stores. It may be roughly estimated that the retail credit business has lost ground during the past thirty years at the rate of more than 1% of the total retail volume per year.

**The Expenses of Conducting a Credit Business.**—Accurate statistics on the exact expenses of operating retail sales

[2] "Zanesville and 36 Other American Communities," a study made for *The Literary Digest*, by R. O. Eastman, Inc., 1927.



on a credit basis as compared with expenses of selling for cash are not easily obtained. Usually there are differences in merchandise carried and in methods of operating which make comparisons of all cash and of all credit stores of little value. Stores that sell for both cash and credit do not as a rule segregate expenses so as to show just what share of operating expenses should be borne by each class of sales. Taking the average rate of expense found in a store selling for both cash and credit certainly does not give an accurate figure representing the costs of selling for credit only. It is clear that where the same classes of merchandise are carried and with similar services rendered to customers, the operating expenses must be somewhat higher on charge account business than on cash business.

Reports of many studies are now available showing the costs of operation in all-cash stores and in stores selling for both credit and cash. The Harvard Bureau of Business Research report on operating expenses in retail grocery stores for 1924, for example, presents such information. Expense figures were separately set up for independent retail grocery stores selling for cash only and for other stores selling for both cash and credit. The main difficulty is that in this report distinctions are not drawn between stores that give delivery and those that do not. The stores selling for cash are usually cash and carry stores and the stores selling for credit and cash are stores that also usually give free delivery. Bearing these differences in mind, the ratio of expense to sales in the cash stores amounted to 15.4%, as against 19.4% in the charge and delivery stores. The difference of 4% roughly represents both the costs of handling credits and of making deliveries. However, a considerable proportion of sales, even in the full service stores, are made for cash and are carried out by customers. A larger amount sold on credit and delivered would, of course, raise the percentage of expense.

Paul Findlay in his "Book for Grocers," published in 1924,

estimates that the cost of handling retail credits in grocery stores should amount to about 3½% on charge sales. In W. F. Williamson's study, "The Retail Grocer's Problem," published by the U. S. Department of Commerce, in which reference was made both to the Harvard and the Findlay figures, it is estimated that the total cost of conducting a credit business, including the accounting and collecting expenses and also bad debts, based on detailed study of actual store conditions, was not less than 5% of charge sales.

**Operating Expense Increases with Length of Time Accounts Run.**—Another characteristic of operating expenses of conducting a charge account business is that they tend to become progressively higher as the credit period lengthens. The longer any account remains unpaid the higher the rate of expense. There is, therefore, a critical relationship between the length of time that an account remains outstanding and the net profit on that account.[3] Not only is there the loss of interest on the capital tied up in outstanding accounts, a loss that goes on as long as the account runs, but there are also increasing expenditures for supervision and collection and a growing hazard of no collection at all. Thus a credit sale, which if paid within 30 days, may show a net profit of 2% or 3%, at the end of 60 days yields no net profit at all, and at the end of 90 days results in an actual net loss for the retailer. It may be possible to work out statistically with a fair degree of accuracy a time schedule which for a given business will show the progressive decline in net profit followed by increasing loss as the credit period is extended. Prompt collections spell net profits.

**Should Interest be Charged on Overdue Accounts?**—There has been a wide discussion in nearly all branches of retail trade on the advisability of charging customers interest

[3] Address by E. Gamlen on "Profit Vanishing Point for the Accounts Receivable," made before the 16th Annual Convention of the National Retail Credit Association at Kansas City in 1928.



on all accounts extending beyond the regular credit period which in most American communities is now 30 days. Under this proposal, on purchases made in July and billed to the customer on August 1, if not paid by August 31 the amount then outstanding would be placed on an interest-bearing basis and the customer expected not only to pay the principal but the interest from September 1 until date of settlement.

The plan of charging interest on overdue accounts has been adopted in a few instances, generally in medium-sized and smaller cities. Its operation has been reported as fairly successful. The method is still under serious discussion. Many retailers are very much opposed to it. They fear that the establishment of such a policy would result in irritation, ill-will, and loss of customers. A more efficient collection department is urged by many as a far better means of reducing credit losses than the attempt to charge interest on overdue accounts.

**Credit Losses.**—Wherever credits are granted losses occur. That some debts will prove difficult if not impossible of collection is inevitable. The variations in credit losses found on passing from one concern to another prove, however, that there are wide differences in management, as well as differences in risks.

Department store credit losses on open account sales average about .4% of such sales and on instalment sales about 1.4% of this type of business. Credit losses in grocery stores show an average of about .6% of credit sales. In both classes of stores the smaller the store the higher the percentages of loss from bad debts.

**Recent Growth of Interest in Credit Selling.**—The gradual stabilization in volume of sales that is apparently occurring in the department store field and among independent retailers has resulted in an increasing interest in the possibilities of developing more sales volume through the use of the charge

account and, as will be noted later on, through the use of instalment selling. This rejuvenation of effort in credit selling has carried with it a complete review of credit methods and a thorough consideration of the policies to be followed in order that the expenses and losses might be kept as low as possible.

**Credit Easy to Obtain in Modern Stores.**—Under present retailing conditions most retail stores carrying charge accounts make it relatively easy to open new accounts. Many department stores' activities solicit patronage for this form of business. As an indication of the ease of opening accounts it has been estimated that probably more than a third of all of those who are introduced to the credit department of department stores are passed for credit on the first interview. When the purchases by the customer are not large and when the information given to the credit department seems satisfactory, it is even customary to permit immediate purchases and delivery. Probably not one application for credit out of twenty is refused.

**Essentials of Credit Management.**—The first step to efficient credit operation is to secure complete information concerning the applicant for credit as to identity, reputation, history, income or resources, family life, and past credit record. Applicants for credit are usually asked a number of questions at the time of their application, such as name, address, marriage status, members of family, age, length of residence in present home, previous addresses, occupation, employment, property, and references. The answers are noted and it is the practice in many retail stores to ask the applicant to sign the blank form on which his or her replies have been noted. References are usually required and promptly followed up. Figure 68 shows a form of application that covers the requirements of retail stores very fully. Figure 69 outlines the details of information carefully gathered by efficient credit departments. Both figures will repay careful study.



**Use of Retail Credit Bureaus.**—One of the most effective means of keeping credit losses low is through cooperative credit

No..... DATE..... KEY.....

Application for credit with.....
Name in full.....
Wife's name in full.....
Address.....Age.....
Former address.....Since.....
Occupation.....
Occupation of wife.....
Salary.....How long there.....
Salary of wife.....How long there.....
Owns real estate (describe).....
Nearest relative.....
Address.....
Application by.....
Approximate limit.....Terms of purchase.....
Bank with..... { Checking account / Savings account
Location of bank.....
How are checks signed.....
References:
.....
.....
.....
.....

The above information is given for purpose of obtaining credit from the above named merchant, the answers shall be regarded as material representations and are warranted to be true in every particular.

Signature.....
Witness.....

MAKE IN DUPLICATE AND RETAIN ONE COPY.

Figure 68. Credit Application Blank Adopted by the Associated Retail Credit Men of Washington, D. C., Inc. (Prepared by L. S. Grigsby, Assistant Secretary, *Women's Wear*, February 19, 1927.)

clearing houses or retail credit bureaus to which all member stores report their experiences with credit customers. These reports are held by the bureau in strict confidence and are used

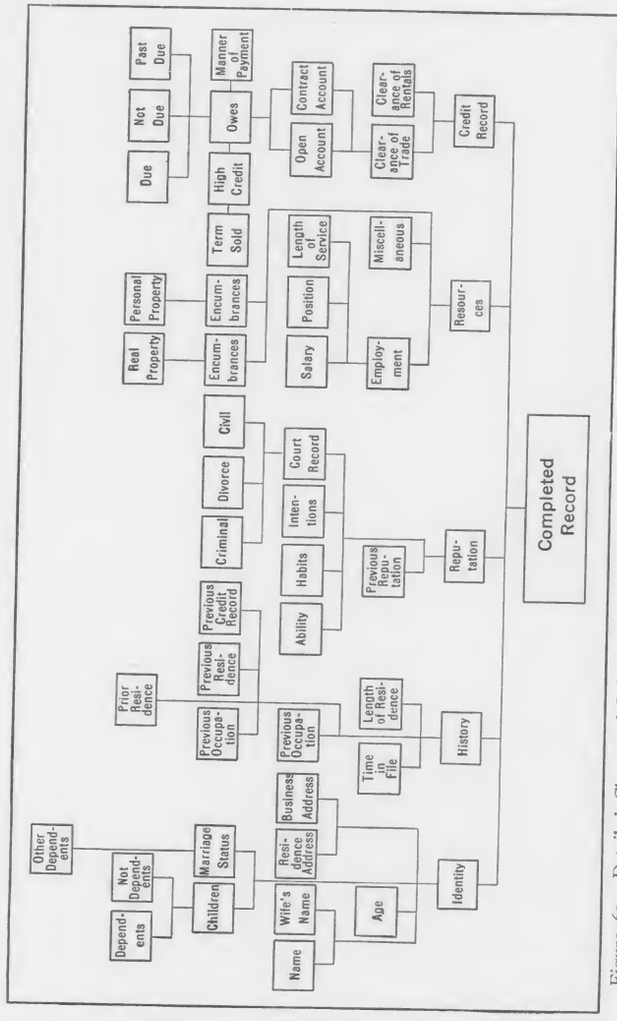


Figure 69. Detailed Classes of Information Gathered by Carefully Managed Retail Credit Departments on Applicants for Credit

Prepared by E. E. McIntyre, Manager of Credit Bureau of Spokane, Washington, *Women's Wear*, June 4, 1927.



only when an inquiry is made by a member concerning a particular individual. In this case the individual's experience with other stores is checked up and the information resulting therefrom is reported to the inquirer.

The losses from bad debts among retailers who use the services of retail credit bureaus is almost invariably lower than among stores that do not use such service. The expense of conducting a retail credit bureau is usually met by a membership fee and by charges for services. A common rate for such services is 40 or 50 cents per answer given by telephone and $1 per written report. In addition to keeping the files of retail customers up-to-date and reporting on individual cases concerning whom retail stores may inquire, bulletins are usually issued to the members periodically, or as often as may be necessary, listing customers whose accounts have been refused. This service permits the credit departments of other stores to be forewarned against requests for credit facilities which upon investigation had been found unsafe by other members.

In the wholesale and manufacturing trades, credit insurance is obtainable as a means of protection against losses from bad debts. Credit insurance is not available to insure consumers' credits in retail stores. Such credits are usually small and from the insurance company's standpoint the information about retail credit customers is too inadequate to permit computation of the amounts of risk. Consequently, retailers must meet their own losses in their own ways when they occur. Perhaps the best method of providing against bad debt losses is by the establishment of reserves against which losses may be charged.

**Easy Credits But Stringent Collections.**—The secret of low credit losses, if such it may be termed, in the face of the ease with which new accounts may be opened lies in the highly efficient operation of the collection department. The technique of the collection of accounts has been greatly improved in recent years. Methods of collection have been reduced

almost to a science. Where these methods are used very few customers get away from meeting their obligations or making restitution in other ways. Modern collection methods do not admit defeat. They get the money.

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# CHAPTER XXI

## RETAIL INSTALMENT SELLING

Paying for goods on the instalment plan is apparently as old as trade itself. The ancient papyri of Egypt and the clay tablets of Babylonia record credit transactions involving instalment payments as common everyday occurrences. In modern times this method of payment has prevailed extensively in many lines. Homes have usually been financed on partial or instalment payments. Home furnishings, sewing machines, musical instruments, and agricultural implements have been purchased on this plan. Payments for insurance are almost invariably periodical instalments.

Instalment selling continued throughout the entire nineteenth century in the lines indicated above. Cowperthwaite, the well-known New York furniture dealer, established in 1807, has used this plan of selling since the beginning. Starting in the 1850's, sewing machines were introduced and widely sold on partial payments, and this method has continued ever since. Sets of expensive books, encyclopedias, and so on, were likewise regularly sold throughout the nineteenth century on the instalment basis.

Instalment selling gained ground rapidly during the years immediately preceding the World War but probably declined considerably during the war period. With the business depression of 1921, instalment selling again asserted itself and then grew so rapidly in volume and spread to so many lines that by 1925 it had attracted not only public interest but public concern as well.

As an indication of the rate of spread of instalment selling, what occurred in the department store field may be cited. In

a study made by *Women's Wear Daily* among American department stores, out of nearly 500 stores canvassed, 223 reported departments in which instalment selling had been followed for more than ten years, and 15 reported departments in which this plan of selling had been used for more than twenty-five years. However this method of selling had been established as a method of securing business in not less than 356 departments within a year.

During the period from 1921 to 1925, it has been estimated that instalment selling more than doubled in volume. In these years many new lines of merchandise, many new departments, and many retail stores took up this method.

Instalment selling in the retail field continued to attract an enormous amount of public attention during the years from 1925 to 1928, but as a method of securing sales ceased to show the rate of growth that developed from 1920 to 1924. Estimates indicate that instalment sales volume in 1925 increased only about 7% or 8% over 1924. Among New England department stores reporting to the Federal Reserve Board instalment sales continued to show some increases after 1925. The sales in this district in 1925 increased 5.2% over 1924. In 1926 there was an increase of 6.2% over 1925, and in 1927 there was an increase of 6.7% over 1926.

A more general estimate made in "Recent Economic Changes," [1] indicates that the total sales on the instalment plan increased about half a billion dollars in 1926 over 1925, but that in 1927 there was somewhat of a decline from the sales of 1926. In this total trend of sales, however, there were undoubtedly items which showed rapid increases even up through 1927, while others merely held their own or declined.

**Reasons for the Rapid Development of Instalment Selling After 1920.**—The rapid industrial development of the country occasioned by the economic demands of the World War and the cessation of this demand in the latter part of 1920 threw enormous industrial productive capacity out of work. Searching analyses for methods by which this productive capacity could be kept in operation, fixed upon long-term credit sales with the provision of instalment payments as an opportunity. Despite the general increase in unemployment in 1920 and 1921, there were still large reserves of savings in the hands of the masses. Standards of living were higher than they had been before the war, and instalment selling pointed the way to satisfy numerous demands of such higher standards of living.

[1] See Report of the Committee on Recent Economic Changes, McGraw-Hill Book Co., 1929, p. 400.



By 1921, the consuming public was ripe for buying goods on the instalment plan. There had been much education on the subject afforded by pre-war promotion. The government had used the instalment plan in the sale of Liberty bonds during the war. The stigma that had been attached to instalment selling during its early days had passed away. Provisions for instalment payments were widely promoted and used in the sale of high-grade goods. The successful sale of Liberty bonds by this method had proved its efficiency.

The keen competition, not only among producers and distributors of the same kinds of goods but also of different classes of goods for consumers' interest, drove the movement with headlong speed during the years immediately following 1921.

**Studies of the Effects of Instalment Selling.**—The rapid spread of this method of marketing stirred up a great deal of concern among people who feared that dire consequences might follow so general an adoption of this selling method. A great deal of resentment was also expressed by industrialists and distributors who either could not or, at any rate, had not adopted instalment selling in their lines and who saw their own sales standing still or dwindling while their customers' moneys were flowing into instalment payment channels. It

was only natural that carefully planned and executed investigations of instalment selling should be made. Several followed during the period from 1925 to 1928.[2]

While these studies were being made, public comments, both praising and criticizing instalment selling, were freely made. Generally speaking, those who favored instalment selling included business men and business organizations having some direct interest in this method of selling. Criticisms, in a considerable number of instances, came from business men whose businesses were of such nature as to make instalment selling a difficult, if not impossible, method of operating, from other business men whose businesses were hurt by the competition of instalment selling, from bankers, unable in this instance of wide extension of credit to find ways of securing

[2] Among the most important of the studies made of the extent and effects of instalment selling were the following:

1. "Instalment Buying," by the Farmers' Loan and Trust Company, February, 1926. The study made an estimate of instalment sales for 1924 amounting to $4,000,000,000.

2. The National Association of Finance Companies completed a study in 1926 covering the year 1925. It estimated that the total indebtedness, outstanding at any time on instalment purchases, amounted to $2,637,000,000 or about 42.7% of total sales by this method.

3. *The Morning Oregonian*, Portland, Oregon, made a preliminary study of the extent of instalment selling and of the opinions of business leaders of all kinds. This study was next taken up by the Oregon Retail Merchants' Association for whom the School of Business of the University of Oregon made a careful survey to determine the attitudes of the public toward instalment selling. These studies were completed in 1926. Many objections had been aired against the evils of instalment selling before this, but this study brought out for the first time in a general way the advantages of instalment selling when properly handled.

4. Dr. W. C. Plummer of the University of Pennsylvania made a report to the American Academy of Political and Social Science which was published in 1927. Dr. Plummer's study not only surveyed the extent and spread of instalment selling but also considered its economic effects. His estimate of the total sales by the instalment plan for 1925, excepting the sale of houses, insurance, stocks and bonds, amounted to $6,000,000,000, of which outstandings, at any time, amounted to $2,750,000,00.

5. At the Third National Automobile Financing Conference in 1926, a report on the extent and effects of instalment selling was made by M. V. Ayres.

6. The American Bankers' Association, through its Economic Policy Commission, arranged for a thorough study on instalment selling. M. V. Ayres, who had made a report to the Third National Automobile Financing Conference, was appointed to make this survey. The period covered was the year 1925. Mr. Ayres in his report, estimated total sales on the instalment plan of $6,467,000,000, which was reduced by first payments amounting to more than 20%, so that the total debt created amounted to not more than $4,747,000,000 with outstandings at any time of $2,744,000,000. Of the total instalment sales 54% were, according to this estimate, made on automobiles.

7. In the latter part of 1926, a general survey of instalment selling was made and published by the Domestic Commerce Division of the U. S. Chamber of Commerce.

8. Early in 1928, Julian Goldman, president of the Julian Goldman Stores, Inc., published an interesting summary of previous studies on instalment buying, together with many additional viewpoints generally favorable to instalment selling.

9. During 1927, Professor E. R. A. Seligman's monumental study on "The Economics of Instalment Selling—A Study in Consumers' Credits," was undertaken and published early in 1928. Professor Seligman estimated that for the year 1926 sales of goods on the instalment plan amounted to $4,500,000,000 with total outstandings at any time of about $2,000,000,000.



some part of this new business for their own institutions, and, finally, from conservative people of all kinds who feared disaster from what appeared to them to be a mushroom growth promising an equally swift decline.

**Extension of Instalment Selling.**—Instalment selling is now utilized in the marketing of a very wide range of products. There are, in fact, but few lines in which instalment selling is not used to some extent. The fields of greatest importance for instalment selling, however, include lines of durable consumer goods of fairly high value, priced from $25 to $50 and up. It has not generally been found worth while to introduce instalment selling in goods of lower unit values. Many retail stores fixed upon such sums as $25, $35, or $50 as the minimum amounts for which instalment accounts would be opened. Furthermore, instalment selling has not been found practical in the sale of goods immediately consumed. The economic function of instalment selling is best served in the sale of goods which, when in use, depreciate slowly in value and which have a repossession value at all times equivalent to or higher than the balance of unpaid instalments. If, for any reason, the customer finds it impossible or undesirable to continue his payments on his purchases, the goods are then retaken by the vendor and their second-hand value must at least be equivalent to the balance of unpaid instalments of the first purchaser.

The following table based on the estimates of M. V. Ayers and Professor Seligman, indicates the lines in which instalment sales are most extensively used. It also presents estimates of the proportions of total retail sales purchased on the instalment plan, the total sales, and the average instalments outstanding at any time under the instalment plan. (See Table 31.)

**Advantages Urged for Use of Instalment Selling.**—The following points favoring the use of instalment selling have

TABLE 31. ESTIMATES OF SALES ON THE INSTALMENT PLAN DURING 1925

| | % of Total Retail Sales | Total Sales on Instalment Basis (From M. V. Ayres) 000,000 Omitted | Total Sales on Instalment Basis (From E.R.A. Seligman) 000,000 Omitted | Average Instalments Outstanding (From M. V. Ayres) 000,000 Omitted | Average Instalments Outstanding (From E.R.A. Seligman) 000,000 Omitted |
|---|---|---|---|---|---|
| Automobiles—new and used | 75 | $3,780 | $2,734 | $1,378 | $1,086 |
| Household furniture | 85 | 789 | 850 | 542 | 492 |
| Pianos | 40–90 | 234 | 189 | 212 | 207 |
| Phonographs | 80 | 174 | 33.4 | 84 | 13.7 |
| Sewing machines | 90 | 100 | 90 | 77 | 77 |
| Washing machines | 75–95 | 104 | 95 | 51 | 51 |
| Property improvements | ..... | 108 | 100 | 45 | 45 |
| Radio sets | 13–75 | 181 | 169 | 41 | 41 |
| Jewelry store goods | 10–25 | 108 | 50.75 | 40 | 20.3 |
| Clothing | 1.4 | 282 | 275 | 36 | 36 |
| Tractors | ..... | 75 | 71 | 28 | 28 |
| Vacuum cleaners | 65 | 56 | 51 | 20 | 20 |
| Farm machinery | ..... | 31 | 28 | 13 | 13 |
| Gas stoves | ..... | 27 | 25 | 12 | 12 |
| Mechanical refrigerators | ..... | 16 | 14 | 11 | 11 |
| All other goods | ..... | 108 | 100 | 48 | 48 |
| Total | | $6,179 | $4,875 | $2,638 | $2,201 |

been drawn from the discussions that have appeared on the subject during the last few years. These points are presented in a somewhat uncritical manner. This list is followed by another list of points opposed to instalment selling. On studying these two lists it will be seen that there are irreconcilable differences of opinion. For example, instalment selling cannot, at one and the same time, encourage thrift and lead to extravagance. The reader may perhaps most safely assume that there is truth in both viewpoints depending upon the classes of goods sold, the methods of operation, and conditions under which sales are induced. The points in favor of instalment selling are as follows:

1. It encourages thrift. Customers are forced to make savings in order to meet their payments and it is assumed that the habits of saving formed in meeting instalment payments remain with the customer.

2. It secures more immediate satisfaction of many human wants than would be possible without instalment selling. Consumers are able to enjoy the use of goods while paying for them. It is urged that paying for an automobile on the instalment plan and, therefore, really paying for the service obtained from the car on a mileage or time basis is no different in principle from buying and paying for five gallons of gasoline at a time instead of purchasing enough to last five years, the average life of the car.



3. It encourages the purchase of goods of real quality and value. Without the instalment plan many consumers would have to content themselves with very cheap and, at the same time, poor qualities of goods. By means of the instalment plan it becomes possible to have better goods and thereby enjoy a higher standard of living, which in turn reacts in raising the consumers' ideals and ambitions.

4. It lowers the unit costs of production by increasing sales. It makes it possible to sell goods through dull as well as active business periods. It steadies production, keeps industrial plants working to capacity, and reduces overhead. Increased and more regular production keeps workers more regularly employed. They in turn make their contributions to other industries by purchase and consumption of a wide variety of goods from other industries.

5. It usually makes a proper distinction in prices between the buyer who purchases on the instalment plan and the buyer who pays cash. In ordinary, regular, open credit business no difference is made in prices between the credit and the cash buyer. Therefore, the cash buyer is penalized. In instalment sales it is customary to add a carrying charge to the cash value price. This charge, in theory at least, represents the difference in operating expenses between the two methods of selling.

6. It is a method of financing consumption. Budgeting has long had a place in industrial and commercial organizations. Budgeting is fully as useful in the financing of consumption. By means of a budget the individual or the family may, on the one hand, control expenses and, on the other, secure the utmost of satisfaction from the expenses made. In-

stalment selling induces family budgeting. The family consuming according to a budget may safely and easily purchase durable goods on the instalment plan and enjoy their use to the full while paying for them.

7. It places financial responsibility upon customers and, therefore, helps to make them better and steadier workers.

8. It offers a very convenient method of purchasing. Instalment selling has been systematized so completely that opening an instalment account, making the purchases, and handling the payments is a very simple operation. Before instalment selling had become generally practiced a customer desiring to make a time purchase of some expensive article found it very difficult and troublesome to arrange suitable credit and security in order to make the purchase.

9. It results in very little economic loss. The fear that instalment selling would wreck retail businesses by the losses they would suffer from unpaid accounts and returned goods has not materialized. Properly handled, instalment accounts do not result in much greater losses than those found in regular charge accounts, and under proper handling the losses in instalment accounts are not nearly so great as the losses found in the regular charge account business as conducted by most retailers.

**Disadvantages of Instalment Selling.**—The opponents of instalment selling have brought out the following views in opposition.

1. It encourages the consumer to run into debt. An instalment account is a mortgage on future earnings.

2. It leads to extravagance. The ease with which goods may be purchased on the instalment plan results in many people seeking consumer satisfactions beyond their economic means.

3. It results in losses to consumers. When the customer fails to meet his instalments he not only loses the goods purchased but also all instalments already paid.



4. It increases the costs of distribution. These costs not only include the handling of instalment accounts and collections but also the losses from bad debts.

5. It is a nuisance to have numerous small bills presented for instalments.

6. The payments for goods bought on the instalment plan often continue longer than the use of the goods.

7. As some instalment plans are devised, sufficient differences are not made between those who buy goods on the instalment plan and those who buy them for cash so that the plan is unfair to those who pay cash.

8. Through instalment selling much poor merchandise of low quality is distributed.

9. Instalment selling is by no means a certain method of increasing production. It succeeded in the automobile industry but failed in the paint industry.

10. Instalment purchases are made by consumers at the expense of savings. That savings have continued at a high point in comparison with previous periods is no indication of what they might have amounted to if it had not been for the rapid extension of instalment selling.

11. The high instalment sales volume during the past five years has been made at the cost of dislocation of consumption in other necessary lines such as foods, clothing, shoes, and so on.

12. Instalment selling on a large scale has not yet passed the test of a business depression. In the view of many it constitutes another cause of trouble, an additional menace in case of business panic.

13. Instalment selling is only a temporary stimulation to business. It helps to increase production one year but tightens the market the next.

14. Instalment selling adds another factor in competition. In addition to competition in qualities of goods and in price it adds a competition in terms of payments.

15. Instalment methods are not usually as closely supervised as business credits, and the dangers of abuse are therefore greater.

16. The high carrying charges added to the prices of goods sold on instalment reduces the purchasing power of the consumers of such goods.

17. In the event of a business depression, large quantities of depreciated merchandise would be turned back and would flood the markets of the country.

18. Instalment selling tends to break down carefully developed habits of paying up bills every thirty days. For more than a generation credit men in retail stores have consistently labored to establish short terms of credit. Instalment selling, though requiring periodical payments, lengthens the total credit period and, therefore, represents an economic step backwards.

19. Instalment sales have the effect of slowing up collections on regular charge accounts due to the insistence on payments under the instalment plan. Where income is limited, instalment payments are the first financial demands to receive attention, for failure to meet these payments results in the loss of both goods and of previous payments. It has been urged that under such conditions regular charge accounts are the last to be paid.

**Common Conditions of Instalment Sales.**—The points for consideration in planning instalment sales policies include the determination of minimum amounts of sale, the amount of the first or down payment to be required, the time allowed for completing the payments, the carrying charges to be added to the cash prices to cover the cost of handling instalment accounts, the legal methods of making the sale, the expenses, and the losses peculiar to instalment selling.

**1. Minimum Amount of Sale.**—In retail establishments whose entire business is confined to instalment sales of some specialty, such as washing machines, vacuum cleaners, pianos,



or talking machines, there is, of course, no problem as to the minimum amount of sale. In department stores and other retail institutions in which merchandise of many classes and prices is offered to the public, it is both necessary and customary to fix the departments in which instalment sales may be made and also to set minimum amounts requisite to opening up instalment accounts. Some department stores have set the minimum amount of instalment sales at $50, others at $35, and still others at $25.

A minimum amount is set for an instalment sale to insure a transaction sufficiently high to bear the extra expense involved in handling such an account. Customers desiring to buy goods priced at lower amounts are urged to raise the necessary cash to pay for them in other ways or to open a regular charge account.

**2. Amount of First Payment.**—The amount of the first or down payment varies widely in the practice of instalment selling. Such payments range from less than 10% up to 40% or even 50% of the total price of the article. A down payment of 10% or less is frequent in the sale of household utilities such as electrical washing machines, vacuum cleaners, pianos, and sewing machines. A first payment of 20% of the total sales value is quite customary in the sale of furniture and other types of home furnishings. The higher percentages of first payments are applied more particularly in the sale of apparel, furs, jewelry, and other goods that depreciate in value rapidly due to wear or possible changes in fashion.

**3. The Amount of Time Allowed.**—The amount of time allowed in which to complete instalment payments varies as widely as do the percentages of first payments. One may find goods sold with time allowances ranging from a few weeks up to 3 or 4 years. Short periods of time are usual in the sale of apparel, radio, and other goods with a high rate of depreciation.

Long periods of time are to be found in the sale of such goods as sewing machines, pianos, electrical goods, furniture, and so on. Much radio equipment is sold on the condition that all payments must be completed within 3 months. Men's clothing is widely sold under what is known as the 10 payment plan calling for weekly payments extending over a period of 10 weeks. Pianos and sewing machines are sold on contracts that extend as long as from 3 to 4 years. Purchases of homes on the instalment plan frequently extend from 10 to 20 years.

**4. Carrying Charges.**—In such instalment selling as was carried on before 1921, it seems to have been customary for the dealer to attempt to secure a gross profit margin considerably higher than that of the average retail store in order to insure against the increased expenses of accounting and the hazards of loss from handling bad accounts. In the first rush into instalment selling, following 1921, many retail organizations established instalment accounts with provision for additional margins to take care of the additional expense ranging upwards to 10%, 15%, or even 20% above the prices at which similar goods were sold for cash. Under the severe competition that followed among the instalment selling concerns, carrying charges declined. They probably do not average more than 5% or 6% over the regular cash selling prices.

Obviously, the 5% or 6% carrying charge on an account paid up by degrees and closed within 6 months is a liberal addition to the regular retail price. It means the equivalent to the consumer of an annual interest charge of from 12% to 18%. Charges of 5% or 6%, quite necessarily a part of the price fixed by the instalment dealer, have in some instances been computed to amount to interest charges of from 20% to 30% per annum. This is a phase of instalment buying that customers do not usually appreciate. Instalment selling is a more expensive form of selling that must be paid for by the purchaser.



**5. Methods of Sale.**—In instalment selling it is necessary that the vendor must have some form of security that the payments will be made. One method, frequently used, has been to make an outright sale, passing the title of the goods to the purchaser who in turn gave a chattel mortgage on the goods as security for the remaining payments. Failure to meet the payments under this method made it necessary for the vendor to take legal action and to foreclose the chattel mortgage in order to secure repossession of the merchandise. A much simpler method is now in general use. When the transaction for an instalment sale is made, the goods pass into the hands of the purchaser under a contract, really a lease, with provision for a conditional sale if, and when, all payments are made. The title to the goods under this method of selling remains with the vendor until the last payment is made. In case of failure to meet instalments, all that is necessary is for the vendor to take possession of goods which are still in his title in accordance with the terms of the contract.

In other cases the contract for instalment sale is a promissory note with conditions for instalment payments. A model form of instalment sales contract of the latter type used in prominent retail concerns is presented in Figure 70.

**A Suggestion to Standardize Terms of Instalment Contracts.**—Frequent suggestions and indeed several attempts have been made to standardize the terms of instalment contracts. One of the most ambitious as well as most constructive efforts in this direction was made under the auspices of the Cleveland Retail Credit Men's Association.[3] This suggestion was made to the various retail dealers' associations of the state of Ohio and of the Ohio Valley. The tabulation of these suggested standards contains so many well-considered recommendations that it has been deemed worthy of inclusion here. (See Table 32.)

[3] Described in *Women's Wear Daily*, November 17, 1928.

| Date | Item | √ | Debits | Balance | Date | √ | Credits | Date | Item | √ | Debits | Balance | Date | √ | Credits |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
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Time There.....In City.....Yrs.....Phone.....

Former Address.....

Occupation.....Employer.....

Business Address.....Phone.....Time There.....

Rent (From Whom) or Own.....

Real Estate.....What Wanted.....Amount.....

Bank.....Married.....Age.....

Name and Address of Relative.....

New Address.....Terms.....Each.....Begin.....

Figure 70. Model Form of Instalment Sales Contract (including spaces

**A Comparison of the Expenses of Instalment Selling with Regular Retail Sales.**—Instalment selling is almost invariably found a more expensive method of distribution than ordinary sales for cash or even for ordinary open credit in retail stores. The detailed items of expense in which increases occur for instalment selling include accounting, interest on merchandise outstanding but not yet paid for, losses on bad accounts, credit and collection expenses, legal services, allow-



OMAHA, NEB.,....., 19...

FOR VALUE RECEIVED, I promise to pay to SMITH CO. or order, at its office in OMAHA, NEB., the sum of $....., payable as follows: $..... upon the execution of this note and $..... on the.....day of.....and $..... on the.....and.....day of each succeeding.....thereafter, together with interest thereon after maturity at the rate of 8% per annum until fully paid.

This note is given for the purchase price of the merchandise hereinafter set forth, it being expressly agreed and understood that the title to said merchandise shall continuously remain in the seller until all indebtedness evidenced by this note is paid in full. If any of the installment payments herein provided for shall not be paid when due, the entire amount of the indebtedness herein, shall become immediately due and payable. In the event this note is placed in the hands of an attorney for collection, I hereby agree to pay all costs of collection, including a reasonable attorney's fee, expressly waiving the benefit of all exemption laws in my favor. I hereby authorize the payee herein, or its assigns, for a period of two years from the date hereof, to request the assistance of any firm, corporation or individual for whom I may be now or hereafter employed, assigning to the payee herein a sufficient amount of my wages, to pay all existing indebtedness.

Witness my hand this.....day of.....19.....

Witness..... (Signed).....

References:.....

REPORT OF BUREAU.....

for recording reports of credit investigation and of payments.)

ances to customers, insurance, and delivery expense. The expenses for accounting interest, losses on bad accounts, credits, and collections may easily be more than double the amount of such expenses incurred in ordinary retail business. There are also other expense items which, because of the nature of the merchandise in which instalment sales are most frequently made, are also likely to be higher than in other types of retail stores such as advertising, delivery, warehousing, freight, and

express expenses. Household furniture, musical instruments, and electrical washing machines are bulky goods whose expenses of handling run into high figures.

In the home furnishing retail business it may be possible to find retail stores or departments conducted at expenses amounting to from 27.5% up to 35% or 36% of net sales, whereas

TABLE 32. SCHEDULES OF STANDARDS OF INSTALMENT SELLING TERMS PROPOSED BY CLEVELAND RETAIL CREDIT MEN'S ASSOCIATION IN 1928

| Items | % Down Payment | Minimum Down Payment | Time Allowed for Payment in Months |
|---|---|---|---|
| Bicycles | 25 | $10 | 4 |
| Cedar chests | 25 | 10 | 6 |
| Dinnerware | 15 | 5 | 6 |
| Draperies | 25 | 10 | 6 |
| Electric appliances (Misc.) | 25 | 10 | 6 |
| Electric ranges and cookers | 25 | 10 | 12 |
| Furniture | 25 | 10 | 12 |
| Furs and fur-trimmed coats | 25 | .. | 6 |
| Glassware | 25 | 10 | 6 |
| Ironing machines | 10 | 10 | 12 |
| Kitchen cabinets | 10 | 5 | 12 |
| Lamps | 25 | 10 | 6 |
| Linoleum | 33⅓ to 50 | 10 | 3 to 6 |
| Moving picture machines | 25 | 20 | 6 |
| Phonographs | 10 | 10 | 12 |
| Phonograph and radio | 25 | 10 | 12 |
| Pianos | 10 | .. | 30 |
| Player roll cabinets | 25 | 10 | 6 |
| Porch and lawn swings | 25 | 10 | 4 |
| Radios | 20 | 5 | 8 |
| Refrigerators (mechanical) | 10 | 10 | 12 |
| Refrigerators (iced) | 10 | 10 | 8 |
| Rugs and carpets | 25 | 50 | 12 |
| Sewing machines | Mfrs.' Terms | | |
| Silverware | 25 | 10 | 6 |
| [Except twice a year, manufacturers' sale (spring and fall), manufacturers' established credit terms prevail for one week.] | | | |
| Jewelry | 25 | 10 | 6 |
| Stoves and heaters | 10 | 5 | 12 |
| Vacuum cleaners and attachments | .. | 5 | 12 |
| (When manufacturers' terms do not prevail.) | | | |
| Washing machines | 10 | 10 | 12 |



TABLE 32 (*Continued*)

MINIMUM AMOUNT OF CONTRACT

No deferred payment account to be opened where the amount of purchase is less than $25.

MINIMUM AMOUNT OF MONTHLY INSTALMENT

The minimum monthly instalment on any deferred payment contract to be $5.

SCHEDULE OF CARRYING CHARGES

The following schedule of carrying charges is recommended:

4% on unpaid balance, irrespective of length of time for which contract is executed, subject to the following refunds:

If paid within 90 days, entire carrying charge to be refunded.
If paid within 4 months, 8/12 of carrying charge to be refunded.
If paid within 5 months, 7/12 of carrying charge to be refunded.
If paid within 6 months, 6/12 of carrying charge to be refunded.
If paid within 7 months, 5/12 of carrying charge to be refunded.
If paid within 8 months, 4/12 of carrying charge to be refunded.
If paid within 9 months, 3/12 of carrying charge to be refunded.
If paid within 10 months, 2/12 of carrying charge to be refunded.
If paid within 11 months, 1/12 of carrying charge to be refunded.

Refund on carrying charge to be based on actual number of months taken to pay the account, irrespective of time contracted for (any fraction of a month to be treated as a full month).

LARGE CONTRACTS

It is suggested that the proposed standard carrying charge of 4% be applied to all contracts involving sums up to $2,000 and that on contracts involving more than $2,000, carrying charges of 2% applied to the amount in excess of $2,000. For example:

On a contract involving $3,000, a carrying charge of 4% to be applied to the first $2,000 and a 2% carrying charge on the remaining $1,000.

CONTRACTS INVOLVING SEVERAL TYPES OF MERCHANDISE

In instalment accounts involving more than one type of merchandise, it is suggested that the terms applying to the merchandise representing the major portion of the account be applied to the entire contract. For example:

A customer buys $500 worth of furniture, $200 worth of drapes, a radio for $125, and possibly $100 worth of china. The terms applying to the furniture would be applied to the whole account, since this represents the major portion of the account.

COLLECTION OF CARRYING CHARGE

This is optional with the various stores as to whether the carrying charge will be collected with the down payment or added to the account. Both methods have proven quite satisfactory.

DEVIATIONS

The above schedule of terms to apply at all times, no deviations to be made during sale periods or otherwise. In isolated or individual transactions, however, where extraordinary or extenuating circumstances prevail, such exception to the foregoing schedule may be made by the credit manager as, in his judgment, seems wise.

the operating expenses in similar stores depending upon instalment sales for the larger part of their business are likely to be from 35% to 45% of sales.

A comparison of the operating expense in instalment stores with the expenses in similar stores conducting a small proportion of instalment sales, and in other stores with simply a cash and charge account business are presented for consideration in Table 33.

**Losses Due to Instalment Selling.**—There are two types of losses to which instalment sales are continuously subjected. One of these is due to actual financial loss in goods where neither the payments may be collected nor the merchandise recovered. The second type occurs when the goods are repossessed but because of bad condition due to mishandling their resale at second-hand prices does not cover the original costs plus the costs of handling. Actual financial losses in the instalment sales business have to date been surprisingly low. Finance companies handling the promissory notes and other commercial paper upon which instalment sales have been made for such merchandise as automobiles, household electrical equipment, furniture, and so on, have generally shown losses of less than 1% of sales. The financial losses on instalment sales in department stores have likewise been very low, generally less than 1%. Many instances have been reported in which the losses due to sales on instalments have been even lower than on charge account sales. Generally speaking, however, instalment sales losses are somewhat higher than the losses from open credit sales.

The real losses of instalment selling, if they may be so termed, are the increased expenses of this method of doing business. These increases must be covered by the higher gross profit margins collected. Hence, the consumer who buys goods on the instalment plan must pay these added expenses in order to enjoy the benefits accorded by the plan.



There has been much discussion as to what would happen to instalment sales in case of a sharp business depression. During 1925, there was an extensive strike in the anthracite coal region of eastern Pennsylvania. Many sales on the instalment plan

TABLE 33. COMPARATIVE OPERATING EXPENSES IN REGULAR AND INSTALMENT RETAIL STORES

| | Stores with No Instalment Sales | Stores with Some Instalment Sales | Stores with All Instalment Sales |
|---|---|---|---|
| | % | % | % |
| Sales | 100.0 | 100.0 | 100.0 |
| Cost of Sales | 69.7 | 61.2 | 51.6 |
| GROSS PROFIT | 30.3 | 38.8 | 48.4 |
| EXPENSES: | | | |
| Selling salary | 7.3 | 6.1 | 5.6 |
| Bonus | 1.0 | 0.7 | 1.3 |
| Buying expenses | 1.2 | 0.3 | 0.2 |
| Advertising | 3.9 | 5.4 | 6.4 |
| Window trimming | 0.2 | 0.2 | 0.3 |
| Delivery | 0.9 | 2.1 | 2.8 |
| Freight and express | 0.8 | 2.0 | 1.1 |
| Store supplies | 0.3 | 0.2 | 0.3 |
| Direct dept. expense | 0.8 | 2.0 | ... |
| Warehouse expense | ... | 0.6 | 0.7 |
| Work rooms | 0.2 | 0.4 | ... |
| Total Operating | 16.6 | 20.0 | 19.0 |
| Rent | 2.6 | 3.8 | 3.6 |
| Depreciation | 1.0 | 0.7 | 1.1 |
| Light, heat and power | 0.8 | 0.7 | 0.7 |
| Cleaning | 0.6 | 0.5 | 0.4 |
| Taxes | 0.5 | 0.4 | 0.6 |
| Insurance | 0.4 | 0.5 | 0.9 |
| Total Fixed | 5.9 | 6.6 | 7.3 |
| General expenses | 0.7 | 0.6 | 1.0 |
| Management | 1.2 | 1.2 | 1.2 |
| Office | 1.5 | 2.1 | 2.8 |
| Postage and phones | 0.2 | 0.2 | 0.4 |
| Interest | 0.9 | 1.5 | 4.8 |
| Loss on bad accounts | 0.3 | 2.8 | 6.3 |
| Donations | 0.1 | 0.1 | 0.1 |
| Credit and collections | ... | 0.5 | 1.8 |
| Carfare | ... | ... | 0.1 |
| Legal and professional services | 0.1 | 0.2 | 0.3 |
| Customers' allowance | ... | 0.2 | 0.5 |
| Total Overhead | 5.0 | 9.4 | 19.3 |
| GRAND TOTAL EXPENSES | 27.5 | 36.0 | 45.6 |
| Net Profit on Merchandise | 2.8 | 2.8 | 2.8 |
| Discounts Earned | 2.9 | 2.9 | 2.9 |
| Miscellaneous | 0.5 | 0.5 | 0.5 |
| | 6.2 | 6.2 | 6.2 |

Note: Actual percentage averages taken from group of each type. Management and Discounts Earned were equalized in each store.

had been made to the laborers of this region, and the effects of this strike on the instalment system in this region were carefully studied. Generally, it was found that instalment payments had to be suspended during the period of the strike, but after the resumption of work the payments were again continued so that the net effect in this instance was merely a decline in the amount of sales during the period of the strike. It has been presumed that in times of wide business depression to come instalment payments may again have to be suspended. It is probable that this course will be followed rather than any general undertaking of repossessing the goods.

**Variations in Instalment Selling Methods.**—One of the most ingenious as well as successful of the variations in instalment selling methods introduced has been the so-called 10 payment plan started in 1925 by retail clothing dealers at the suggestion of Alfred Decker & Cohn, manufacturers of "Society Brand" men's clothing. Under this plan retail clothiers made their sales of men's suits on the basis of a first payment of 25% of the retail sales value, the remainder divided into 10 equal instalments, each payable weekly. Thus the entire amount under this schedule would be completed in 10 weeks, or less than 2½ months.

Under the 10 payment plan dealers added from 3% to 6% carrying charges and later reports on its operation indicated increased expenses of from 6% to 8% on sales. However, the plan spread rapidly and has since enjoyed marked success throughout the country. In a survey made by the *National Retail Clothier* in July, 1928, three years after the beginning of the plan, a majority of the retailers canvassed reported that the 10 payment plan was as active as ever, and a very large majority agreed that its use had resulted in an increase in retail sales volume.

Shortly after the success of this plan had been assured in the men's clothing field, it began to be adopted in various



other lines such as women's apparel, and more particularly in the sale of furs. It has since been used widely in the sale of many commodities in department stores.[4]

**Family Budgeting Applied to Instalment Selling.**—Several large department stores have effectively used educational methods on family budgeting as a basis for increasing sales by instalment methods. Through educational pamphlets and by advice and suggestion given in so-called budget departments in the store, consumers are shown what proportions of their income should be expended for the various necessities such as food, clothing, rent, fuel, and light, and so on. On the basis of such information the amounts that may be expended for home furnishings, musical instruments, electrical equipment, are indicated. From such tabulations so set up the consumer is shown what amounts may reasonably be set aside to meet the instalment payments on such equipment.

**The Morris Plan.**—Consumers' credit, extended in the form of small loans to salary-earners in much the same way that commercial credit is extended to business men, except for the higher rates of interest charged consumers, constitutes the principal type of business of many private bankers and banking corporations with numerous branches all over the country. Among these is the Morris Plan Corporation. In a few instances retail stores have made arrangements with Morris Plan Banks for customers to borrow money with which to purchase merchandise ordinarily sold elsewhere on the instalment plan. Customers who use this method secure their merchandise at regular cash prices and then make their payments with interest to the Morris Plan Bank. To facilitate this method of operation, a branch bank of the Morris Plan has, in the case of at least one big department store, been established within the store, namely, Crowley-Milner Co. of Detroit.

[4] The 10 payment plan is clearly described by H. D. Comer in a bulletin issued by the Bureau of Business Research, Ohio State University, published in 1926.

**Instalment Selling Combined with Direct Selling.**—Direct selling organizations dealing in high-priced merchandise almost invariably employ the instalment sales method. Automobiles, insurance, electric refrigerators, and household equipment of all kinds are sold in this way. Even retail stores that have taken up instalment selling have found it profitable to increase their business in the departments in which instalment selling is applied by employing direct salesmen to canvass from house to house to secure orders for such merchandise. Thus house-to-house selling methods have been adopted simultaneously with the instalment selling policy among many of the larger department stores throughout the country.

**Final Considerations.**—Instalment selling has reached a high level of results throughout the United States. It is also reported to be a highly important method of marketing goods in Great Britain and some of the countries on the continent of Europe. It has proved its contentions and while its critics have been able to indicate possibilities of serious difficulties, it is undoubtedly here to stay. Instalment selling is the logical method by which distribution may be secured for high-priced, durable consumers' goods. It can probably not be applied safely or profitably in the sale of goods that are immediately consumed or in which the rate of depreciation is very rapid. Safety in selling requires that the instalment method should be applied only to such goods in which the repossession values are always higher than the unpaid instalments. The essentials of effective instalment selling include the following important points:

1. The establishment of limits of minimum amounts below which instalment sales are unprofitable.

2. Careful investigation of applicants seeking to make purchases by instalment methods.

3. Systematic collecting systems that bring in the money or the merchandise without fail.



4. Absolute honesty in representation of the merchandise sold and of the methods of operation of the instalment system. Dishonest statements, misrepresentations, or even misunderstandings of the statements made by concerns using this method breed ill-will very rapidly. It is significant that many people who make purchases on the instalment plan do not repeat their experiences.

5. The dangerous tendencies continually present in instalment selling are the possibilities of overextension of the plan among lines of goods in which the method is unsound, and the tendency to lower the quality of the goods in order to make cheaper prices or better terms. Overextension, lowering the quality, and overselling the consumer can only result in financial wreckage and ill-will not only of consumers affected but of the public at large.

Note may also be taken of the point that the rapid extension of instalment selling during the past ten years has been accompanied by a rapid increase in the types of retail institutions selling for cash and quite probably of the total volume of goods sold for cash. As pointed out several years ago by Roger Babson in one of his bulletins, the greater the rush into instalment selling the better the opportunity for the really low-priced cash business. It is the regular charge account business in between the instalment method on the one hand, and the cash selling method on the other, that is likely to suffer most.

In conclusion, the system of instalment selling is now well set in the habits of American retailing. Prior to the World War it was commonly associated with the sale of cheap and shoddy goods. Though still used in the sale of large quantities of low quality goods, its rapid extension as a means of facilitating the marketing of automobiles and other high-grade consumers' goods has entirely changed the public attitude toward this method. Whatever instalment selling may have been a generation ago, it bears all indications today, when properly

conducted, of being an entirely safe and stable method of selling.

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# CHAPTER XXII

## SUPPLIES

There is a surprisingly large variety and quantity of supplies used in a retail business. Paper, paper bags, boxes, and twine run into many millions of pounds a year. In the report on the operating expenses of department stores compiled by the Harvard Bureau of Business Research, the percentage of net sales expended for supplies has been moving steadily upward from 1.3% in 1924 to 1.5% in 1928. Supplies constitute a serious and growing item of expense in the retail business.

Department store expenses for supplies are probably no higher, if indeed as high, as similar expenses in specialty shops and other retail stores, classes of goods considered. There is, however, a considerable variation in the expense for supplies from one individual store to another. Among successful department stores the variation in total expense ranges from .8% to 2.4%. Part of this difference is undoubtedly due to differences in merchandise handled and delivery requirements. Fragile glass and china, for example, require much more expensive packing per dollar of sales than hardware, shoes, or even apparel. Goods that must be delivered or sent by mail or express have to be more expensively packed than goods taken by the customer at the time of purchase.

An average of 1.5% of net sales means that in a small business with a volume of $50,000 a year the expenses for supplies amount to $750 per year. In a business with retail sales of $100,000 a year the expense will amount to $1,500. In a $1,000,000 business the supply expense will amount to $15,000, and in a $10,000,000 business it will amount to $150,000 a year. The total volume of supplies used by American

stores must amount to nearly five hundred millions of dollars annually.

Another measure of the cost for supplies is the cost per transaction. In department stores, wrapping costs alone average about 1.5 cents per sale. Stores whose sales average about $2.50, applying the average percentage of expense, show a cost of 3.75 cents per transaction. In some lines of goods the wrapping expense runs up into considerable amounts per sale.

Unless carefully watched, there is clearly a possibility of very serious waste in this important item of expense. A reduction in expense means a direct increase in net profits. To put the matter in another way, saving $100 in the use of supplies is equivalent to the average gains made from a $1,500 purchase of merchandise.

**Varieties of Supplies Used.**—1. Wrapping paper bought in sheets already cut and in rolls is the most commonly used material in packing merchandise. Such paper comes in various qualities such as manila and kraft, in various finishes and in various colors, usually gray, brown, green, or blue.

Wrapping paper is used by the sheet or length but bought by the pound. Price quotations for paper are given by weights. A weight in each case represents the weight of a ream of 480 sheets of 24 x 36 inch paper. From this standard weight, commonly used in the paper trade, a slight variation of not to exceed 5% above or below is allowable. The standard weights of paper used in the retail trade include 25, 30, 40, 50, and 60-lb. papers.

Paper purchased in ready cut sheets comes in a variety of standard sizes of which the following are most frequently used:

| | |
|---|---|
| 12″ x 18″ | 24″ x 36″ |
| 15″ x 20″ | 30″ x 40″ |
| 18″ x 24″ | 40″ x 48″ |
| 20″ x 30″ | 48″ x 60″ |

Wrapping paper in rolls comes in various widths of which the following are the most frequently used:

12″ 18″ 20″ 24″ 30″ 36″ 48″ 56″ 60″



The lighter weights of paper are used in wrapping smaller parcels. The larger the sheets the heavier the paper must be. This additional weight is necessary in order to secure the necessary toughness and strength. Wrapping paper is judged by its tensile strength, its resistance to puncture, and its folding qualities.

In addition to strength, it is highly important in the retail trade that wrapping paper be attractive in appearance. A neat-looking package, nicely wrapped in good-looking paper, constitutes a form of advertisement which a retail store cannot afford to neglect. Good appearance certainly comes next to strength as a consideration in the choice of wrapping papers.

2. Twine, like wrapping paper, is bought by the pound but used by lengths. It comes in balls and cones. Like wrapping paper, its appearance is a factor of almost as much importance as its strength. Twines are tested for breaking strength and running feet per pound or, better still, number of feet per cent of cost. Twines used in the retail business are mainly cotton, hemp, jute, or sisal. Twines come in various finishes such as linen finish, polished, or unfinished. Cotton twines are described by the number of plies, and hemp and sisal twines by the number of threads. The lightest cotton twine ordinarily used is about 4-ply followed by larger sizes such as 8, 16, and 24-ply. Hemp and sisal, used in wrapping large heavy bundles, commonly come in 2 and 3-thread sizes.

3. Gum tape has gained great favor over the use of twine in many lines of retailing. It may be easily and quickly applied, it looks well, and is less expensive than the better grades of twine. Gum tape comes in 1, 1½, 2, and 3-inch widths. It is usually made of kraft paper.

4. Paper bags are made in a wide variety of sizes and qualities of paper. There are said to be over 6,000 varieties and sizes for grocers' use alone. In a recent study of the use of supplies in a large department store it was found that paper bags of 37 different sizes were in use. The paper bag is espe-

cially desirable in departments in which the clerk wrap system prevails, that is, in which the goods are wrapped up and given to the customer by the salesperson, but they are also extensively used in stores in which cashier-wrappers are employed.

There are two varieties of construction commonly found in paper bags, one known as the die-cut bag and the other as a serrated edge bag. The former is somewhat more expensive but is believed by many to be a better bag and also better-looking. Serrated edge bags cost from 15% to 25% less than die-cut bags. Paper bags are also sometimes made with handles. Such bags have extensive use in specialty shops, and to some extent in department stores, but the handle adds very considerably to the cost of the bag.

5. Tissue paper is used in large quantities in retail dry goods, jewelry, and department stores. It is usually a bleached white. Tissue paper is used as a first wrapping for, and as stuffing material with, fine goods going into boxes. It is purchased by the pound in ream quantities. The sizes most frequently used include:

10″ x 12″ 19″ x 28″ 14″ x 27″ 20″ x 30″ 24″ x 36″

6. Merchandise boxes are used wherever merchandise during delivery must be protected from crushing, breaking, wrinkling, or similar damage. Cardboard boxes come either set up, ready to use, flat, or folded and constructed so that they may be put together quickly. Set-up boxes are made both with shallow lids and telescope tops. Boxes may be either two-piece or one-piece, ingeniously cut out so that by making the proper folds and putting the edges together a complete merchandise box quickly results.

There is considerable discussion among retail store supply buyers as to the relative merits of locked corner boxes and automatic folding boxes. Both have their merits. The locked corner box is slightly lower in price than the automatic but requires a little more time for setting up than the automatic.



For heavy goods, likely to be damaged in delivery or shipment, boxes made of corrugated paper board are employed. The corrugated paper may be of straw or chip and with varying degrees of tensile and puncture strength. Surprising durability and strength may be secured in the better grades.

Most retail stores, particularly in the dry goods, jewelry, toilet goods, and other similar fields, provide special boxes for goods purchased to be used as Christmas presents. Enormous quantities of Christmas boxes are made and used every year. These are of great varieties and sizes. They are generally decorated with fancy-colored covers.

Millinery shops and millinery departments in department stores require special types of boxes changing in size from season to season with the changes in fashions of millinery. They vary in cost from 25 cents or less up to $1 or more per box. There is also a wide range of small-sized boxes used in jewelry shops and jewelry departments.

Merchandise boxes come in hundreds of sizes. Careful study of the problems of merchandise packing have shown, however, that a great many of these sizes may be eliminated and the purchasing problem simplified by standardization on a relatively small number. A large store in which a survey of boxing was made found it possible to reduce the number of sizes of cardboard boxes from 176 to 40 and of corrugated boxes from 41 to 32.

7. Corrugated paper rolls used in packing and delivery departments for proper protection of heavy fragile goods.

8. Chip board and cardboard.

9. Toilet paper.

10. Páper towels, of which there are several well-known brands. The advertised brands are usually preferred. Many stores still continue to use cloth towels. A few have installed air drying machines. The paper towel seems to be most generally used.

11. Cash register rolls are usually bought from register manufacturers.

12. Excelsior is bought by many stores as a filler and protection for fragile merchandise. This item of expense is reduced in some cases by the use of shredded paper. Waste paper is run through a shredding machine and the product makes excellent packing material.

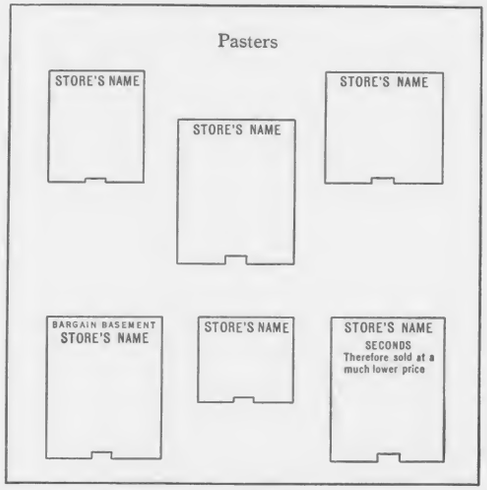


Figure 71a. Pasters

Pasters have many uses. Those shown here are the most popular sizes of the machine-made kind. They are very practical for shoes, laces, and trimmings (on cards), as well as for pleating, ruffling, and veiling.

13. Paper cups. The common drinking cup of a few years ago has passed out of use. Drinking fountains have been generally installed, but paper cups are also very widely used.

14. Price tags, stickers, and tickets. There is a very wide variation in types of tags and tickets used in marking merchandise. Some of these types are illustrated in Figure 71.

15. Adding machine rolls.



16. Typewriter ribbons.

17. Sales books. Most retail sales books are made by less than a half-dozen manufacturers who specialize in this field. The paper used in sales books may be either manila, newsprint, or some other cheap material. Manila serves the purpose best but newsprint paper is cheaper. In some retail stores

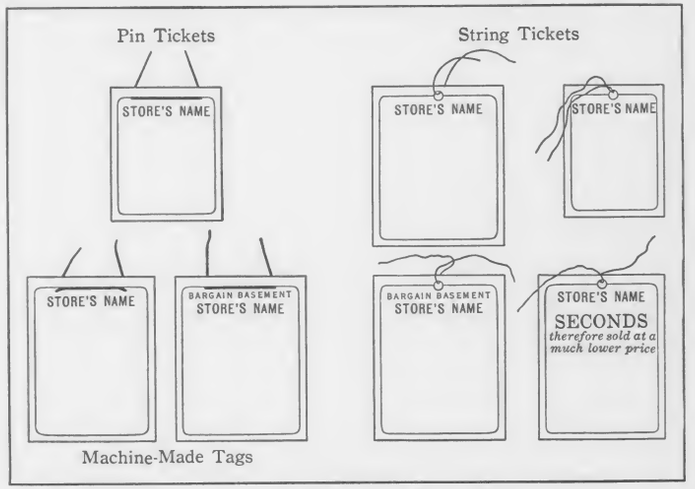


Figure 71b. Pin Tickets and String Tickets

The pin tickets shown here are used for shirts (inside the band at the back of the neck), for hosiery, and underwear. The uses of the string ticket depend on its size. The small ones are used for flowers, fancies, and millinery trimmings, while the large ones are used for bathrobes and smoking jackets.

the sales book problem is complicated by having different sales books for different classes of sales such as cash sales, charge sales, C. O. D. sales. The trend, however, seems to be in the direction of having but one type of sales book for all classes of sales.

18. Bill statements.
19. Envelopes.
20. Order books.
21. Carbon paper.
22. Office stationery.
23. Pencils.

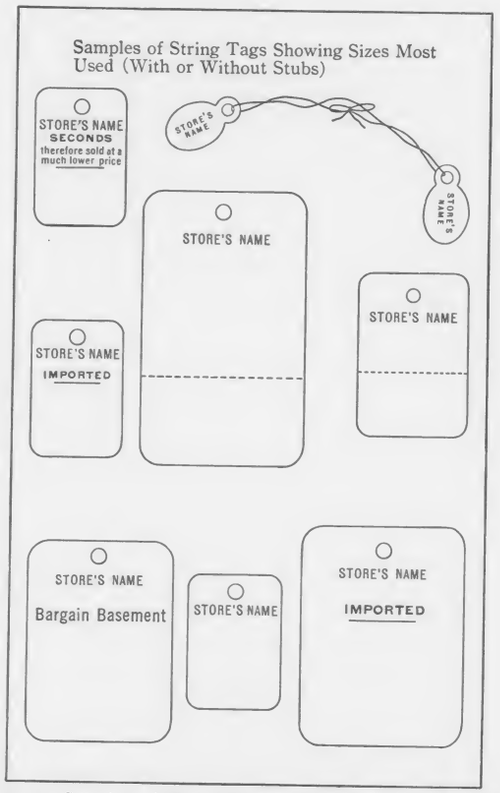


Figure 71c. Samples of String Tickets Showing Sizes Most Used

The tags shown here are self-explanatory. Stub-tags are used where stock records are kept, as in the dress, suit, and coat departments. For two-piece suits the coat is marked with the stub-ticket and the skirt with the stubless ticket. The small-sized tag is for bathrobes, negligees, and kimonos. The tag in the upper right-hand corner is for jewelry.



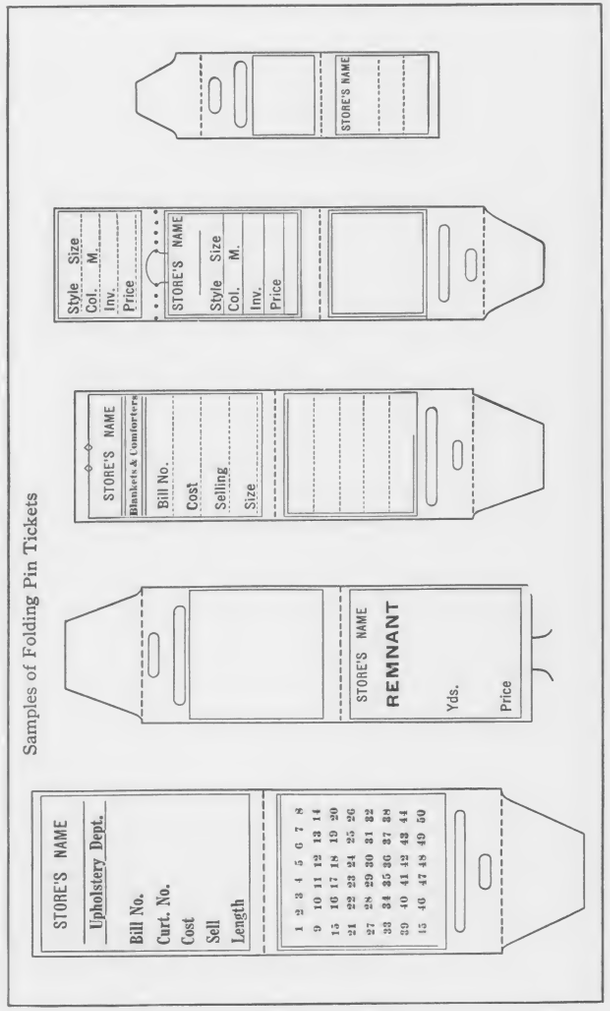


Figure 71d. Samples of Folding Pin Tickets

The first tag is used for curtains and allied departments. The figures are used for checking the quantity sold, the merchandise on the floor being merely a sample. The second is used for remnants and other yard goods. The third is serviceable for blankets, comforters, lace curtains, draperies, scarfs, etc. The fourth is used for millinery (the ticket being placed in the lining of the hat at the top of the crown). The last is a tag that is used for fine, sheer materials.

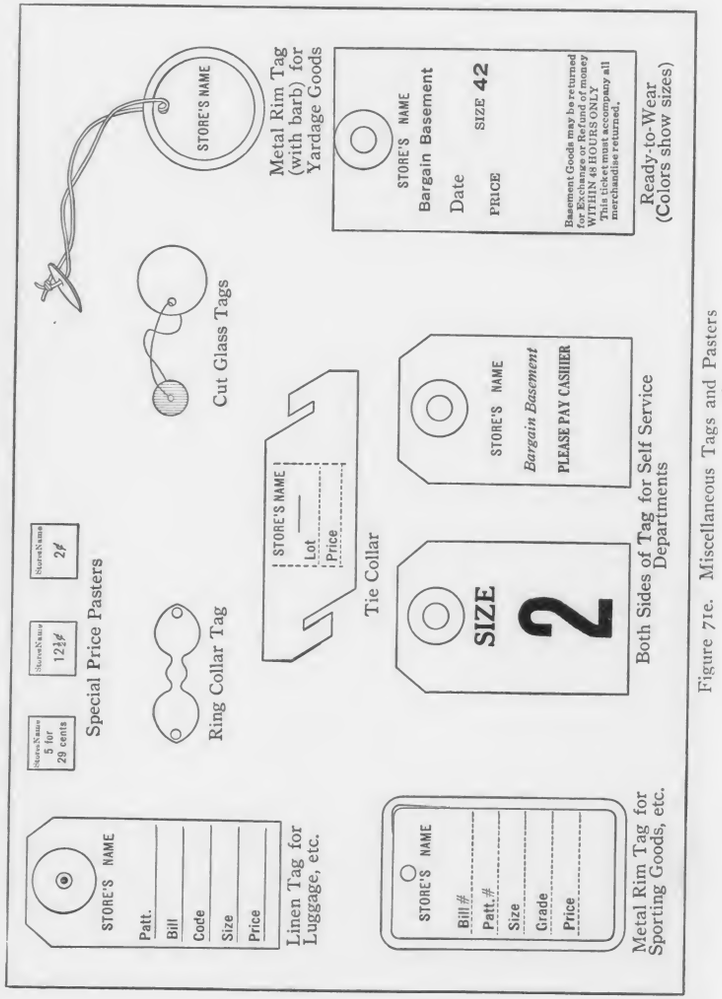


Figure 71e. Miscellaneous Tags and Pasters



24. Ink.
25. Paper clips.
26. Paste.
27. Pins.
28. Rubber bands.
29. Scratch pads.
30. Dust cloths.
31. Soaps, washing powder, scouring powder, metal polish, whiting, etc.
32. Brooms, mops, brushes.
33. Floor oils, and wax, furniture polish, sweeping compounds, insecticides, rat poisons.
34. Varnish.
35. Uniforms for porters, elevator operators, and others.

In addition to the foregoing, purchasing departments in retail stores are usually responsible for buying and controlling the use of water, electricity, coal, electric light bulbs, mechanical supplies, and advertising and display materials.

**Methods of Economizing in Retail Store Supplies.**—1. Among the first and most important steps that may be taken to secure greater economy as well as greater efficiency in the use of store supplies are standardization on sizes, and securing better prices by ordering larger quantities of the fewer sizes found necessary. Instead of using 30 or 40 different sizes of bags, careful study of merchandise packing usually shows it possible to get the number down to 10 or 12. In the same way, the number of sizes and varieties of merchandise boxes may be cut down and the number of different sizes of bags reduced to a fraction of those commonly used.

A group of department store supply buyers studying this problem recently agreed that practically all of their requirements for bags could be handled by the following twelve sizes:

| | |
|---|---|
| 3 " x 5 " | 5½" x 14 " |
| 4 " x 6¼" | 11½" x 11½" |
| 5 " x 7½" | 13½" x 13½" |
| 5½" x 14 " | 12 " x 15 " |
| 6¼" x 9½" | 15 " x 19 " |
| 8½" x 12 " | 18 " x 23 " |

Probably more than 75% of all requirements for merchandise boxes may be cared for by the following sizes:

| | |
|---|---|
| 6″ x 4″ x 1¾″ | 19″ x 12″ x 3″ |
| 8″ x 6″ x 2¾″ | 23″ x 12″ x 3″ |
| 10″ x 10″ x 2 ″ | 23″ x 14″ x 4″ |
| 13″ x 11″ x 2¼″ | 26″ x 15″ x 5″ |
| 17″ x 11″ x 2½″ | 28″ x 16″ x 6″ |

A recent study on the use of price tags and tickets resulted in cutting down the number of such items from 70 to 20.

Department stores have found it possible to standardize on 4 different weights of cotton twine and 2 of jute. These sizes which take care of all requirements are 4-ply, 8-ply, 16-ply and 24-ply unfinished cotton and 2-thread and 3-thread good quality sisal or jute.

The U. S. Department of Commerce has for several years worked with a great many trade associations to secure standardization on those items that are most applicable for their purposes, and the elimination of useless sizes, types, styles, and so on. Some of the retail trade associations have taken up this subject. Probably no form of association work promises so much advantage as does this activity.

2. It may also be possible to effect a considerable economy in the use of supplies by careful selection of lighter weights of paper, cardboard, and twine than those actually used. There is nothing to be gained from using heavy papers if the additional weight is meaningless so far as protection of the merchandise is concerned.

3. Another method of economy in supplies is to anticipate wants and order in advance of the time of use. Such advance ordering is highly advantageous to producers of supplies who in turn are often able to quote better prices. Every retailer who uses Christmas boxes knows that he will require such boxes, and may therefore place any desired order a year in advance. As a matter of fact, many large stores place their Christmas box orders in January for delivery in the latter part of October.



Other items that may be ordered far in advance of use with provisions for delivery as needed include wrapping paper, boxes, bags, price tags, sales checks, order books, and twine. Similarly, contracts may be made for the purchase of gasoline. Retail stores having such contracts have secured price concessions amounting to as much as 3 cents per gallon below the regular tank wagon price. Material savings are also possible in some places by buying electric light bulbs on contracts made with electric lamp manufacturers or their local distributors.

4. Important savings in supplies have been found possible by introducing materials of more economical construction, such as the serrated edge bag rather than the die-cut bag and of the locked corner folding box instead of the automatic folding box.

5. It is sometimes possible to substitute cheaper materials in place of those used, as in the case of gum tape instead of twine, of lithographed stationery instead of engraved stationery, and of 4-ply polished cotton instead of fine sea-island cotton.

6. Another significant means of effecting a saving of supplies is by reducing the size of forms, tags, sales slips, and so on. Cutting off an inch from the length of sales slips may mean a saving of from 10% to 15% of the cost of these forms.

7. Another method of effecting savings in supplies is by securing the cooperation of manufacturers in unit packing, that is, each article when received in the store is packed, ready for delivery to the consumer. A great variety of goods, particularly in house furnishings, electrical goods, glassware, dishes, toys, small furniture items, lamps, lamp shades, pantry sets, radio sets, scales, smoking stands, umbrellas, and so on, are now available in unit packing. The retail store using this service saves not only the expenses for packing supplies but also the time and labor of packers as well. Computations have been made indicating savings on packing expenses by unit packing ranging according to items from 10% to 50%. Thus,

whether the unit packing is paid for by the manufacturer or retailer, the proposal offers a net gain.

8. One of the commonest methods of effecting savings in retail store supplies is by the reclamation of paper, twine, corrugated paper, boxes of all descriptions, and so on, that would otherwise be wasted. Systematic attention to the reclamation of supply waste, if not carried to absurd extremes, may effect important economies. Waste materials not reclaimable may be baled and sold as junk. Some of the larger department stores of the country have sales of baled waste paper running into 2 or 3 tons per day.

**Buying to Specifications.**—One of the most important steps toward securing economy in retail store supplies is to determine specifications of supplies needed and to buy accordingly. Paper and cardboard may be measured, weighed, subjected to puncture tests and folding tests, and suppliers held to their contracts and paid according to what they deliver. Coal may be purchased on a B. T. U. (British Thermal Unit) basis, and so on. Buying to specification is primarily a method of economy open to the use of large stores. By cooperative effort smaller retailers may also secure its benefits.

**Supplies Stock-keeping.**—Stock-keeping systems are as essential in handling retail supplies as for retail merchandise for resale. It is desirable to maintain a perpetual inventory on each item with maximum and minimum stock limits and an automatic index on what to order and how much to order. By a careful stock control the capital investment in supplies on hand may be regulated and a proper turnover secured. No supplies should be issued except on requisition and users should be made responsible for proper and economical use.

**Education in the Use of Supplies.**—Finally, economical use of supplies in a retail store means that its employees must be educated in their use. There is an art in wrapping goods



and tying bundles, in using the proper amount of wrapping materials to secure adequate protection for the merchandise, attractive appearance and, at the same time, avoiding waste. Apprenticeship methods, formerly used in England and European countries, stressed proper use of supplies. Most young employees in former days received adequate instruction in these respects. In the hasty training methods of modern retail stores, the proper use of supplies is generally overlooked and, as might be expected, great wastes result. The packing divisions in the delivery departments of large stores offer excellent opportunities for scientific study of packing requirements for each kind of merchandise handled. Through such study returned goods and claims for damages may be reduced, goodwill for the store increased, as well as costs of supplies reduced.

**Need for Specialization in Supply Buying.**—The purchase of supplies in most small and even medium-sized retail stores is treated as an unimportant or minor consideration. Because of the relatively small amounts involved and the limited time required to handle this problem, it is usually combined with other work but, as already indicated in this chapter, the possibilities of waste are so great and the effects of savings so direct on net profits that specialization in supply buying is very necessary.

Whether a store is large enough to employ a supply buyer who will give his entire time to this work, or not, it is ordinarily worth while to have some one person designated to give the problems of supply buying attention. This person should have the sole responsibility as well as authority for the purchase of supplies, including not only wrapping materials and other ordinary supplies but also the supplies required in the mechanical upkeep of the store and even window decorators' supplies. Only in this way may effective control be maintained over the supply expenses of the store, and wastes checked, if not completely eliminated.

# CHAPTER XXIII

## INSURANCE

Retail organizations, in common with all other types of business, have come to a keen realization of the essential necessity of insurance as a protection against the more serious causes of loss over which there may be little or no control. The need for adequate insurance of various kinds has been sufficiently explained to the retailers of the country over a period of many years through the trade papers, and through addresses at association meetings, as well as in textbooks.

In principle the retail business does not differ greatly from other businesses in its requirements for insurance, so that the standard manuals on insurance cover the subject fairly well. While the value of and necessity for insurance is probably recognized by the rank and file of all classes of retailers, there is still a great deal of difference in opinion as to what particular insurance shall be carried, and still greater differences on how much to carry.

The problems of insurance as applied to any particular business are so complicated and so technical that the services of insurance specialists are necessary to determine the requirements. There are insurance brokers in the larger cities whose incomes consist of commissions received on insurance placed. These brokers have specialized knowledge and, usually having no interest in any particular company, are in position to advise retailers as to their requirements. Chain store organizations as a rule designate some officer in each company who makes insurance his special study. Small independent stores may secure adequate help through the insurance departments of their own trade associations.





**Varieties of Insurance for Retail Stores.**—There are 50 or more varieties of risks suffered by retailers for which insurance may be and is purchased. A fairly comprehensive list is presented in Table 34, which also presents information on the numbers of stores found carrying these varieties of insurance in a selected group of 75 stores studied by the Insurance Bureau of the National Retail Dry Goods Association. It also shows the cost of the main divisions of insurance in percentages of net sales.

In addition to the varieties of insurance indicated in this table, there are others such as insurance against lightning damage, against liabilities resulting from claims for injuries from food, drink, drugs, physicians' and dentists' services.

Old-age pension plans, which are coming into use, have in some cases been handled by purchase of annuity insurance. This practice is likely to spread. Another form of insurance yet to appear in the retailing world is unemployment insurance.

The titles of most of the forms of insurance enumerated in the table and in the foregoing paragraph indicate what they cover and what their purposes are. Additional explanations are given in some cases only.

**Lack of National Standards.**—Insurance in the United States, unlike transportation and interstate commerce, has been left to the regulation and control of individual state legislatures and insurance departments. Quite naturally, such regulations have differed considerably from state to state. Consequently, all trends toward national standards in all forms of insurance have moved very slowly. The New York Standard Fire Insurance Policy adopted by law in the State of New York has likewise been adopted as a whole or with slight variations in several other states. Through cooperation among the insurance companies and among retail trade associations, policies and forms of insurance are being standardized, conditions of

TABLE 34. DISTRIBUTION OF INSURANCE PREMIUMS IN 75 STORES

(Prepared by W. F. Kimball, Director of Bureau of Insurance of the National Retail Dry Goods Association. *The Bulletin*, September, 1928.)

| Classification of Insurance | 45 Stores with Sales Over 2 Millions | | 30 Stores with Sales Under 2 Millions | | Total 75 Stores | |
|---|---|---|---|---|---|---|
| | No. of Stores Carrying | % of Net Sales | No. of Stores Carrying | % of Net Sales | No. of Stores Carrying | % of Net Sales |
| 1. Fire | 45 | .1211% | 30 | .2095% | 75 | .1259% |
| 2. Compensation | 44 | .0454 | 30 | .0277 | 74 | .0444 |
| 3. Public and elevator liability | | .0313 | | .0280 | | .0311 |
| Elevator liability | 44 | | 29 | | 73 | |
| Public liability | 44 | | 29 | | 73 | |
| 4. Use and occupancy, profits, rents, leasehold | | .0301 | | .0336 | | .0303 |
| Use and occupancy: | | | | | | |
| Boiler explosion | 0 | | 0 | | 0 | |
| Earthquake | 0 | | 0 | | 0 | |
| Elevator failure | 0 | | 0 | | 0 | |
| Fire | 36 | | 20 | | 56 | |
| Riot and civil commotion | 0 | | 0 | | 0 | |
| Sprinkler leakage | 1 | | 0 | | 1 | |
| Tornado | 1 | | 2 | | 3 | |
| Profits | 6 | | 0 | | 6 | |
| Rents | 23 | | 4 | | 27 | |
| Leasehold | 5 | | 3 | | 8 | |
| 5. Automobiles | | .0288 | | .0175 | | .0282 |
| Fire and theft | 42 | | 20 | | 62 | |
| Liability | 41 | | 21 | | 62 | |
| Property damage | 40 | | 19 | | 59 | |
| Collision | 15 | | 11 | | 26 | |
| 6. Transit and marine | | .0157 | | .0190 | | .0159 |
| Marine | 24 | | 5 | | 29 | |
| Transit | 27 | | 15 | | 42 | |
| 7. Robbery and burglary | | .0106 | | .0321 | | .0118 |
| Burglary: | | | | | | |
| Safe | 45 | | 28 | | 73 | |
| Open stock | 18 | | 10 | | 28 | |
| Fur storage | 14 | | 3 | | 17 | |
| Robbery: | | | | | | |
| Outside messenger | 42 | | 27 | | 69 | |
| Interior office | 42 | | 23 | | 65 | |
| 8. Plate glass, water damage, flood, rain, hail | | .0081 | | .0173 | | .0086 |
| Plate glass | 26 | | 22 | | 48 | |
| Water damage | 7 | | 4 | | 11 | |
| Flood | 0 | | 0 | | 0 | |
| Rain | 1 | | 0 | | 1 | |
| Hail | 0 | | 0 | | 0 | |
| 9. Fidelity bonds | 37 | .0084 | 13 | .0062 | 50 | .0083 |
| 10. Sprinkler leakage | 43 | .0046 | 24 | .0106 | 67 | .0050 |
| 11. Explosion and riot | | | | | | |
| Explosion: | | | | | | |
| Boiler | 32 | | 10 | | 42 | |
| Other than boiler | 9 | | 0 | | 9 | |
| Riot and civil commotion | 4 | | 0 | | 4 | |
| 12. Tornado | 12 | .0034 | 8 | .0060 | 20 | .0035 |
| 13. Earthquake | 8 | .0026 | 0 | | 8 | .0025 |
| 14. Accounts receivable | 5 | .0017 | 1 | .0005 | 6 | .0017 |
| 15. Miscellaneous not listed above | | .0015 | | .0175 | | .0024 |
| Accident and health | 4 | | 1 | | 5 | |
| Check alteration and forgery | 38 | | 27 | | 65 | |
| Contingent liability: | | | | | | |
| Building laws | 4 | | 1 | | 5 | |
| Reciprocals | 10 | | 3 | | 13 | |



TABLE 34 (*Continued*)

| Classification of Insurance | 45 Stores with Sales Over 2 Millions | | 30 Stores with Sales Under 2 Millions | | Total 75 Stores | |
|---|---|---|---|---|---|---|
| | No. of Stores Carrying | % of Net Sales | No. of Stores Carrying | % of Net Sales | No. of Stores Carrying | % of Net Sales |
| Engine and electric machinery: | | | | | | |
| Breakdown | 9 | | 2 | | 11 | |
| Life: | | | | | | |
| Executive | 21 | | 15 | | 36 | |
| Group | 9 | | 4 | | 13 | |
| Parcel post | 23 | | 20 | | 43 | |
| Total | | .317 | | .427 | | .323 |
| Number of stores equipped with automatic sprinklers | 39 | | 20 | | 59 | |

insurance modified, risks more carefully classified, and rates reduced for preferred risks.

That the exercise of discretion and rigid supervision over insurance is essential is evidenced by many things, not the least of which is the ever-present moral hazard. Figure 72, showing the relation of fire insurance loss to business failures, indicates a coincidence that is more than accidental. There is undoubtedly a great deal of incendiarism. Losses due to crime and dishonesty constitute a burden which honest business men should not have to pay. Law enforcement against arson may be greatly helped by better standards of insurance.

**Fire Insurance.**—The commonest risk or hazard in the retail business is loss by fire, and fire insurance leads the long list of various kinds of insurances found in the retail trade.

Much has been done and much can be done through education of retailers and their employees against carelessness and poor housekeeping, the principal causes of the fires that occur in the retail field.

The invention of chemical fire extinguishers to be used in emergencies, and more particularly of automatic sprinklers which turn loose sprays of water whenever because of fire the temperature of a room reaches a certain degree, somewhat

higher than normal room heat, have done much to diminish the loss from fire in retail institutions.

Defective electric wiring is another leading cause of fire in retail stores. Improvements in methods of wiring, together with higher standards for electrical equipment set by the National Board of Fire Insurance Underwriters, have done much to reduce the risk from this source.

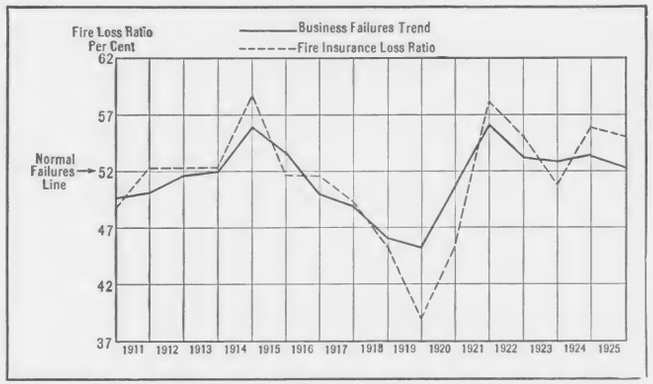


**Figure 72.** The Relation of Fire Insurance Loss to the Trend of Business Failures, Indicating Incendiarism or Moral Hazard

From advertisement of Glen Falls Insurance Co., appearing in *Journal of Commerce*, September 9, 1926.

Modern building construction is very much more nearly fireproof than the types of buildings formerly erected for the retail trade. Even where the buildings themselves are almost fireproof merchandise stocks are usually inflammable. There can be no help for this, but the hazard from fire in merchandise stocks has been greatly reduced by the use of non-inflammable storage fixtures and by the installation of fireproof doors and fireproof partitions between departments preventing the spread of flames from one department to others.

A large percentage of all retail stores are now equipped with automatic sprinklers. Aside from the reduced fire risk



resulting from the use of sprinklers, insurance rates for stores having such systems are also reduced by as much as 35% to 40% of the regular rates where sprinklers are not used. These are the inducements for the establishment of such equipment.

In addition to automatic sprinklers and frequent use of chemical fire extinguishers, of water tanks, and buckets for emergencies, it is also a common practice among the larger stores to appoint some of the employees to act as a fire-fighting organization. On receiving the fire signal each person in such an organization (with duties well-defined) rushes to his post to help prevent any dangerous spread of the conflagration.

Periodic inspections of retail store premises to insure complete and thorough care in clearing out rubbish, packing materials, and other inflammable material, proper condition of electric wiring, use of regulation fuse plugs, freshness and effectiveness of chemical fire extinguishers, and so on, are duties which should be regularly performed in every retail store.

Figure 73 presents practical suggestions in compact form for reducing fire hazards in retail stores.

**Classes of Retail Fire Insurance.**—Among retailers insurance against fire is taken out (1) to cover the building and such fixtures as are a permanent part of the building; (2) on fixtures and equipment within the building; and (3) on merchandise stocks. The conditions of insurance on these three different classes of property are usually very different and the insurance rates vary accordingly.

The fixtures considered as a permanent part of the building and, therefore, included in the building insurance, include elevators, escalators, heating, lighting, and plumbing fixtures, cash carrier and tube systems, and so on. Since the building insurance rate is almost invariably lower than the insurance rate on fixtures, all fixture property a part of the building should be included in the insurance on the building.

Fixture insurance is intended to cover all fixtures not a

permanent part of the building such as are usually installed by the tenant or lessee for the conduct of the tenant's or lessee's business. Fixtures are covered for the amount of the

POINTS FOR FIRE PREVENTION

1. Are there any accumulations of dirt or rubbish on the premises?
2. Is the basement clean?
3. Are the packing and delivery rooms cleaned thoroughly at closing time?
4. Is there any unnecessary combustible material in the yard or court?
5. Is there any oily waste or other greasy material outside of approved waste cans?
6. Are any waste cans not emptied daily after closing hours?
7. Are there any broken windows, plastering, partitions, flooring, or other similar defects?
8. Are any aisles obstructed?
9. Are any entrances obstructed?
10. Is any woodwork or other combustible material too near steam pipes, boilers, flues, or furnaces?
11. Is the fuel supply safely stored?
12. Are there any open-flame lights near combustible material?
13. Are there any broken electric fixtures or loosened wires?
14. Are electric cords looped over nails or in contact with any other metallic objects or surfaces?
15. Are any electric fuses replaced by wire or other improper current-carrying materials or devices?
16. Are fire doors or shutters ever left open at night, or on Sundays or holidays?
17. Are fire escapes obstructed, broken, or out of order?
18. Are there any violations of rules on smoking?
19. Are all water pails, hose, nozzles, and chemical extinguishers in place and in good condition?
20. Are any sprinkler heads coated or corroded?
21. Are any sprinklers obstructed by partitions, piles of merchandise, etc?
22. Are any sprinklers or sprinkler pipes exposed to freezing?
23. How many sprinkler heads are kept in reserve?
24. Is there any part of the premises that the watchman fails to visit?
25. Are window openings protected from exposure fires?
26. Is combustible stock storage isolated by fire walls?
27. Where is the nearest fire alarm box?

Figure 73. A Check List of Points for Self-Inspection as a Means of Fire Prevention in Retail Stores

replacement value, that is, for what they are worth to the business. This may well be considerably higher than either book value or liquidation value. By liquidation value is meant what they would bring if offered for sale.



Merchandise stock insurance is based not only upon the first cost of the goods but also such additional expenses as may be necessary to place the goods in the store and prepare them for sale. For insurance purposes, then, the value of the merchandise covers not only their first cost but also buying, transportation, receiving, marking, stockroom, and such office expenses as are necessary to carry out these lines of work.

**Property Valuation for Purposes of Insurance.**—For purposes of insurance, the value of property is taken at replacement cost less depreciation. It therefore results that insurance values and the value of the property as carried on the books do not always coincide. Book values are sometimes nominal and are sometimes carried at liquidation values. Insurance value is based on what the property is worth to the owner at the time of the fire.

The insurable values of retail property may be determined as follows:

1. By detailed appraisals by outside companies specializing in such work.
2. By self-appraisal within the store based on such records, inventories, stock sheets, and other data as may be at hand.
3. By guess. Where other information is lacking, no other way is practicable.

Valuations of buildings and equipment may be made in regular ways such as mentioned in (1) or (2) above, and these valuations may be considered as fairly stable for periods of months or even for a year. Not so with merchandise stocks, whose amounts and values change from month to month and even from day to day. A well-known department store computes weekly the dollar value of merchandise on hand for insurance purposes and files its computations in an outside vault for use in settlement of insurance in case of loss of the store by fire.

**Co-Insurance.**—Fire insurance companies usually allow a somewhat reduced rate for insurance carried up to or in excess of a certain percentage of the value of the property insured. This condition is expressed in certain insurance policies and is provided for in what is known as a co-insurance clause. The co-insurance clause in retail store insurance practice usually provides that the property insured must be insured for not less than 80% of its actual cash value. If insurance up to this amount is not carried, then in case of a fire the insurer is considered his own underwriter for the difference. The company will pay only such part of the loss as indicated by the ratio its policy bears to the value of the property.

To illustrate: under the co-insurance clause a building worth $10,000 should be insured for not less than $8,000. In case of fire the insurance company will pay the full loss up to $8,000. If, however, the owner insures his building for something less than $8,000, as for example, $6,000, then in case of loss the insurance company will be liable for only such proportion of the loss as the amount of the insurance bears to 80% of the actual cash value of the property.

The co-insurance clause secures a lower rate but the retailer who avails himself of this clause must be sure that his property is fully covered under the co-insurance provisions or, in case of loss, have his indemnity cut.

**Floater Insurance.**—Retail institutions that have merchandise in scattered locations may obtain what is known as floater insurance covering such stocks. Such insurance is frequently taken out on warehouse stocks, on goods issued to customers on conditional sales, and so on. Floater insurance covers such goods wherever they may be.

**Compensation and Liability Insurance.**—A retailer is liable for damages due to injuries suffered either by his employees or visitors in his store. To cover this risk, various forms of insurance are usually carried, such as employees' liability, elevator liability, general liability, public liability, contingent liability, and automobile liability insurance. Injuries to employees are usually handled by insurance known as workmen's compensation, the form and requirements of which are in most states determined by laws.



Compensation insurance or workmen's liability insurance, as it is sometimes called, makes the employer responsible for any financial loss due to injuries to his employees. It assumes that the cost of such insurance must be borne as an expense of doing business, and, therefore, ultimately paid by the consumer. State legislation requiring workmen's compensation insurance in this country began in 1911. The idea has spread so rapidly that, at the present writing, nearly all states have such laws. Some of these laws order employers to carry compensation insurance. Others permit employers to do so or to continue under the old laws of employers' liability. Usually, if the employer does not formally indicate a selection, his adoption of workmen's compensation becomes automatic.

Employees' liability insurance covers all classes of personal injuries that may occur to workers while engaged in the performance of their duties. One of the problems still remaining subject to dispute is whether such compensation extends to occupational diseases. In a few instances exceptions are made in favor of the employer where it can be proved that accidents or injuries are the direct result of gross negligence, wilful misconduct, or intoxication.

Under workmen's compensation acts the employer must pay compensation covering the economic losses due to injuries. Compensation insurance is a means of making the policy of such compensation a definite and regular part of the business. In return for the payment of regular premiums the insurance company assumes the responsibility of meeting compensation payments whenever accidents occur. Insurance companies carrying employees' liability risks usually perform certain serv-

ices in connection therewith, such as periodical inspections of the plant and making suggestions for improvements in safety. The insurance company likewise investigates and settles claims. If any lawsuits are brought against the employer over compensation matters, the insurance company pays all costs of legal proceedings.

Public liability insurance provides protection for the retailer against loss to persons not in his employ for accidents resulting in bodily injuries or death. Such injuries in retail stores include slipping or falling on slippery floor surfaces, on stairways, or over obstructions, being hurt in doorways, being struck by falling objects, injuries in elevators or escalators, accidents due to acts of employees, and so on.

Contingent liability insurance covers the store owner against claims resulting from accidents to the public as a result of construction operations carried on by outside concerns such as contractors. It is also secured to cover the possibilities of damage losses due to automobiles used in the business but operated by outsiders.

**Use and Occupancy Insurance.**—Use and occupancy insurance, sometimes called business interruption indemnity, is a relatively new form of insurance to cover serious business losses due to fire, earthquake, sprinkler leakage, thefts, or other causes that are not fully covered under the ordinary insurance policies in these lines.

For example, fire insurance covers only the direct loss or damage by fire to the property involved. It does not cover the fixed expenses and charges that continue and which must be borne during the period of rebuilding. The interruption in business may be more serious to the retailer than the property loss. Among the expenses that must be met, even though the business is suspended in whole or in part because of fire or other causes, are taxes, salaries to the permanent members of the staff, interest on borrowed capital or other forms of indebtedness, insurance premiums, advertising, payments on yearly contracts, cost of lighting, heating, and similar maintenance expenses necessary even under a condition of idleness. It is the purpose of use and occupancy insurance to cover these items of expenses and to protect the net profits of the concern.



Regular fire insurance, for example, covers the physical losses to the property, but use and occupancy insurance carries the burden of continuing expenses until the premises can be restored to productive condition. Use and occupancy insurance enables the retail concern to keep its organization together without financial strain and to maintain its net earnings unimpaired.

Complete use and occupancy protection may be obtained by insuring for the full amount of fixed charges mentioned above. In case of fire or other causes of total suspension of normal operations the use and occupancy insurance pays losses sustained for each working calendar day of such suspension. The amount paid per day is computed as 1/300 of the total amount for which insurance is carried. If the loss due to fire or other causes results only in a partial interruption, only a proportionate amount is payable.

The cost of use and occupancy insurance is usually about 70% of the regular fire insurance risk. A $100,000 fire insurance policy with a use and occupancy insurance provision added, in event of total loss would pay the retailer $333.33 per day for as long as it takes to restore the premises to normal working order.

**Automobile Insurance.**—In addition to automobile liability insurance, already referred to, other forms of insurance are needed and usually carried, such as fire insurance, theft insurance, collision insurance, and property damage insurance.

**Merchandise in Transit.**—A variety of risks is incurred on merchandise in transit whether by water or by land trans-

portation. These risks are from fire, theft or pilferage, destruction from exposure, and so on.

**Water Damage.**—Such insurance is frequently obtained to cover possible losses from leakages that may occur from roofs, broken windows, water pipes, steam pipes, and so on.

**Burglary and Robbery Insurance.**—Burglary may take place from open merchandise stocks or from safes or vaults. Separate insurance rates are offered by insurance companies for these conditions. Robbery is usually classified as (1) hold-up of messengers either inside or outside; (2) hold-up of the paymaster; and (3) office robbery. Varying rates prevail for all three of these classes.

**Water, Flood, Rain, Hail, Tornado and Lightning Insurance.**—Water damage insurance is carried quite frequently as a protection against loss due to leakage of pipes, roofs, walls, windows, and doorways. Flood, rain, hail, tornado, and lightning insurance are rather rarely used in the retail business but their use is continuously urged by insurance experts and they are probably entitled to more favorable consideration than they have received in the past.

Earthquake insurance has been a matter of interest to retailers primarily on the Pacific Coast where some losses due to this cause have occurred.

Life insurance as a form of business protection has come into rather wide use during recent years. The success of a business may be in large part due to the special ability or efficiency of some executive or partner in a business. It may not always be possible to replace such an executive promptly in case of death. The size of the business may not warrant having an understudy ready to take his place. Bringing in a new man from outside will at best involve a considerable loss in time taken to learn the details of the business. To tide a



concern over this contingency it is common for the firm to carry life insurance policies on its executives.

**Group Life Insurance.**—Another form of life insurance which has gained tremendously in the favor of business organizations of all kinds is group life insurance covering all employees, or, in some instances, a preferred list of employees of the concern. Group insurance is usually taken by the year or for short terms of years. No physical examinations are required to secure such insurance. A bulk flat rate premium is paid. In case of death of any member of the group a limited sum is paid to his or her beneficiaries by the insurance company.

Group insurance provides an effective means of giving employees a feeling of security covering their families or dependents in case of death. Aside from its humanitarian aspects, group insurance contributes to the goodwill of the business, tends to hold desirable employees from leaving, and reduces worry. Group insurance usually is drawn for amounts of from $500 to $1,000 per employee. In some cases variations are made in the amounts of insurance payable in case of death, depending upon salary earned or the number of years in employ. Group insurance is very frequently the only insurance carried by a great many low-salaried employees.

**Classes of Insurance Companies.**—Insurance is available to retailers from four different classes of insurance concerns, namely, stock corporations, mutual insurance companies, reciprocal exchanges, and Lloyd's organizations.

Stock companies are ordinary private corporations organized for the purpose of carrying on an insurance business for the profit of its stockholders. A very large part of the enormous amount of insurance carried by retailers in this country is carried by stock companies. Many of them have had long and successful experience. A wide distribution of risks, together with efficient operation, helps to make them very desira-

ble means of securing protection against insurable losses. Stock companies sell insurance in the same way that commodities or services are sold by other organizations. In return they receive payments in the form of premiums which cover their losses, expenses of doing business, and profits for their shareholders.

Mutual insurance companies are organized as corporations but operate on a cooperative basis. Every policyholder in a mutual company is also a stockholder with the right to vote and to exercise every privilege of any stockholder in the affairs of the company. Mutual and stock insurance companies are operated on similar lines excepting that profits from operation go to the policyholders in the mutual company and to stockholders in the case of the stock company.

Reciprocal exchanges carry the principle of cooperation found in mutual companies somewhat farther. They are usually organized as associations rather than as corporations. Every firm carrying insurance in the exchange is a member of it. Every member of the exchange binds himself to contribute in proportion to the amount of insurance carried whatever may be necessary toward meeting the running expenses of the exchange, and to share in making up the losses when they occur. Reciprocal exchanges eliminate a large part of the expenses of operation both of mutual and stock insurance companies and thereby reduce the cost of insurance to a bare minimum. The overhead is, as a rule, very low. Members are permitted to take out a greater amount of insurance than is usually allowed to policyholders in mutual and stock companies. On the other hand, membership in the exchanges is highly selective. Before admission, prospective members are carefully investigated to make sure that their plants, equipment, and stocks are as carefully guarded against risk and loss as possible. Only those are admitted who can give evidence of doing everything within their power to prevent loss.



Lloyd's organizations are merely associations of private or individual underwriters who make a business of assuming risks in return for payments of stated premiums. Insuring in a Lloyd's organization is somewhat the same in principle as placing a wager in which if there is no loss the Lloyd's organization wins and if there is a loss the insurer receives reimbursement to the amount promised from the organization.

Stock company insurance is favored by a majority of the smaller stores and several large organizations throughout the country. Mutual insurance companies are to be found in many lines and in many parts of the country such as among hardware dealers, dry goods dealers, druggists, and grocers. There are also larger companies that operate on a national scale on the mutual principle. Reciprocal exchanges are used extensively by the better-class department stores. Lloyd's organizations do a fire and general insurance business. They are no longer as important as they were some years ago. Associations of individuals acting as underwriters have not proved as stable as regularly organized stock and mutual companies. Of the hundreds of such organizations formerly existing there are very few remaining. Lloyd's of London, the original organization from which all of the rest have taken their name, does an enormous, world-wide business, particularly in marine insurance and in numberless other risks. There is a common statement that Lloyd's will, in return for a proper premium, insure against any risk.

Insurance in stock companies and mutual companies is generally placed through local agents. Friendship and personal contact are two all-important factors in this phase of the business. As already indicated, insurance brokers may be found in some of the larger cities who handle all problems and kinds of insurance for their clients and who, when the proper insurance is selected, place it with regular agents.

The broker may be a very important aid to the store man-

ager in helping to determine what insurance to carry and in securing the best rates. There are many details in insurance placing that require close attention, such as insuring many types of fixtures as a part of the building under the regular building rates rather than under fixture rates, which run higher.

# CHAPTER XXIV

## STANDARDS AND MEASURES OF RETAIL OPERATIONS

By the term standard as used here is meant an established possibility applied to production, expressed in quantity of output or in costs per operation. There may obviously be standards for all types of retail operations, ranging from the number and amount of sales expected per salesperson, the number of deliveries per delivery van or truck, to the number of charge accounts that can be handled by an employee in the accounting department.

Good management in retailing is characterized by the intelligent use of practical standards of operation both as models and as goals. Progress is made by setting practical goals and by securing achievements approximating the goals. Progress in any retail operation may be measured by a comparison of actual results with the standards sought. Thus the standards serve not only as quotas but also as the basic units of measurement.

As indicated in a previous chapter, a sales clerk who receives $20 a week should ordinarily seli $400 worth of merchandise per week. Under such conditions, a sales salary expense of 5% of the total net sales may be taken as the standard of selling expense.

The cost of delivery in many American department stores indicates an average of about 15 cents per package. This may perhaps be taken as the standard department store delivery cost. Since the average transaction amounts to about $2.50, therefore the delivery cost amounts to about 5 cents per dollar of

sales of goods actually delivered. These figures constitute standards of retail delivery operations.

A comparison of results found in several department stores indicates that the daily number of sales checks amounts to about half of the number of people who enter the store. This ratio of sales to persons entering the store constitutes an interesting and helpful standard of store relationship and service to its customers.

Similarly, standards of operation may be determined for every activity of a store. These standards are certain to vary from business to business and from time to time, but when accurately determined and intelligently applied in individual cases, may be very helpful in the management of the store.

**How Standards Are Established.**—Every retail store manager as well as every department executive carries out his supervisory functions of work actually carried on under his direction by comparisons made directly or indirectly with certain norms, ideals, or standards, based on his knowledge of what can be done. The wider the knowledge of the executive on the possibilities of achievement, the clearer the opportunities for successful supervision.

An executive's standards of retail operations are generally the results of his past observations and experiences in handling the work of the store. The chief value of experience to an executive is the background of standards acquired. Men and women who have done the work of the employees under their direction usually know more clearly what can be done and what constitute practical standards of performance than do individuals who have not had this experience. Comparisons of the accomplishments of different employees at any given time or of one time with another aid in establishing accurate ideas of practical standards.

The knowledge of both operating standards and methods may be helpfully extended by systematic comparisons of operating results of one business concern with that of another. In recent years, several groupings of retail stores have been formed for the purpose of conducting cooperative exchanges of figures and other information. These exchanges have been very useful in many ways, but most of all in developing more accurate and more practical standards. The executives of a retail store without contacts with other stores may quite conscientiously arrive at conclusions as to what constitutes standards of operation which on comparison with the achievements in other stores may be found to be quite mediocre. Great advances in retailing have been made by such exchanges of information.



Another method of even more recent use in the retail field is the determination of standards of operations by research. A score of years ago the movement for scientific management sponsored by Taylor, Emerson, Gantt, and the Gilbreths, developed a fervor of interest in research as a means of determining standards of operation in the manufacturing field. A like interest manifested itself in the field of retail management but actual results were achieved more slowly. The new scientific management which stressed the need for intimate and detailed study of each operation in order to eliminate all waste time and motion, has gradually come into use in retail practice at least in modified form. In an increasing number of stores there has been developed a technique of analysis of work to be done followed by precise specifications on the best methods in which the work should be carried on.

The individual experiences of store executives, the comparisons of experiences of individual stores through cooperative exchanges of information, and, finally, actual scientific research, are now working hand in hand in the retail field, aiding in the rapid development of precise knowledge concerning every type of retail operation on what is to be done, how to do it, and achievements practically possible. It is no longer necessary for a retail executive to rely upon his own experience solely for the necessary knowledge of standards of operation. It is, indeed,

even unwise and unsafe to have but this source of information. The modern executive needs to be fortified by information from all sources.

**Common, Significant Measures of Operation.**—Among the standards used as measures of operation may be mentioned *quantity standards, unit cost standards,* and *ratio standards.* These three types of measures are not only used directly in measurement of progress from day to day but also as a means of determining *changes or trends* in production over a period of time. They are also supplemented by *supervision checks and tests,* particularly in lines of work where the formal quantity or cost standards or measures do not adequately serve the purpose. Finally, *general, periodic surveys* covering all important phases of retail store operation are necessary to complete the measurement of the progress of the store. Each of these will be considered in detail.

**Quantity Standards.**—The output or product of any department, or even of an employee, is commonly measured by quantity standards such as the following:

1. The work of salespeople is checked and compared with standards by taking account of the number of sales made per day, per week, or per month. A comparison of the number of transactions for any given period with the same period of last year or with any preceding period shows the direction of progress in individual sales efficiency.

2. In the wrapping of merchandise, the quantity measure most frequently applied is the number of packages wrapped per day or any other period found convenient to use.

3. In the marking department, the efficiency of output may be checked by noting the number of pieces handled and marked by machine and by hand.

4. Stenographic work and letter writing are measured by the number of letters written per day. The output will, to be sure, vary from department to department in accordance with the differences in length of letters written and whether stenographic dictation may be a part of letter writing or not. Secretarial letter writing may, for example, be measured by a general standard ranging from 20 to perhaps 50 or 60 letters a day.



5. In the delivery department where records are made and kept of packages sent out, the work of sheet writers is measured by the number of packages handled. Ordinarily, department store sheet writers average 1,000 to 1,200 packages a day. This constitutes a standard measure in department store delivery departments.

6. Standards of performance of actual deliveries to customers must vary in accordance with the distance from the store, the distance to be traveled from customer to customer, the percentage of cases in which return calls must be made, and the amount of time required to make each delivery, due to an inclusion of C.O.D. purchases and so on. In the larger centers, department store delivery trucks average from 175 to 235 deliveries per day. Under normal conditions figures somewhere within these ranges may serve as standards of measurement of delivery performance.

7. In the accounting department, quantity standards and measures may be applied to the work of charge authorizations, ledger postings, issue of bills, check writing, and so on. Fairly definite standards of performance in these lines are commonly recognized by accounting executives throughout the country.

8. Similarly, quantity measures are applicable in almost every other activity carried on within the store, as for example, in card writing, in window trimming, in personal interviewing of applicants for positions, and so on. Even the work of floor-cleaners may be measured by the square feet of space each can handle satisfactorily per day or per week.

**Unit Cost Measures.**—A somewhat more advanced set of standards and measures applied to retail store operations may be found in the computations of unit costs of such operations.

These standards are exceedingly useful in checking the expenses of the store. There has been an increasing use of unit costs as a measure of retail operations and it is probable that retail executives will continue to make use of such measures with increasing frequency.

The following will serve as representative illustrations of this type of standards.

1. Getting new customers is a function in which practically all retail stores are interested. Very few, however, have taken the pains to determine the very necessary and illuminating information as to the costs in advertising and other forms of sales promotion of securing new customers. Where such unit costs have been determined, it has been found that they vary exceedingly from business to business and also in accordance with the various methods employed. A grocery store may find that the cost of adding new customers averages $2 each. A department store may spend $5 per customer. A prominent men's clothing concern has reported that its cost of adding new customers amounts to $15 each. Obviously, this suggests a field of rich possibilities for further study, comparisons, and research.

2. Another unit cost measure similarly applicable in checking the cost of maintaining the store's relations with its customers is the average annual value of customers to the store, expressed in net profits. For a grocery store, the average may range from $5 to $20 each per year. In a shoe store, the average family trade may mean a net profit from $1 to $6. In a department store, the average of net profits may range from $1 or $2 up to $20 or more per year. Such are the measures of the real values of customers to the store.

It will, of course, be found that a certain proportion (usually small) of the total number of customers contribute largely to the store's net revenue, while increasingly larger and larger proportions add smaller and smaller amounts to the store's net profits. A clear recognition of these differences together with



an indication of the reasons for these differences supplies the basis for intensive executive effort to increase the number of profitable customers and especially to increase the profitability of the present customers of the store.

3. All of the quantity measures referred to in the foregoing section may be, and often are, reduced to a unit cost basis. Thus the number of sales made per day or per week are retranslated into the costs per transaction or sale. The costs of wrapping of packages, of marking, of typing letters, of making deliveries, of authorizing charges, of posting items to ledgers, of making out bills, and so on, including the unit cost for cleaning per square foot of space, are determined and used as standards of measurement of future operations.

**Standards Expressed in Operating Ratios.**—A still more advanced, and in some respects and for some purposes a more significant method of measuring retail operations, is by considering the effects of such operations in relation to other general results desired by the store. There is an increasing use of operating ratios in present retail administration.

1. The most commonly used ratio in the retail business is the relation of annual sales to the average stocks of merchandise carried. This ratio is called turnover. In well-conducted retail establishments every department and section, and in fact every line of goods has its standards of turnover which serve as the bases of measurement of the progress of the department, section, or line. The ratios of annual sales to average stocks may be 3 to 1, in which case the annual turnover is said to be three times. The turnover may vary in different departments and in different lines, from once or less per year up to as much as 10, 15, 20, or even more. A practical standard of turnover may be a very useful measure of merchandising operations.

2. A somewhat less frequently used ratio is that of expenditures for advertising to sales. Advertising funds are often appropriated to the use of specific merchandise lines on the

basis of such ratios. In some instances, the amount of advertising appropriations for each department is apportioned on the basis of departmental sales; in other cases it may be apportioned to specific goods in proportion to their past or prospective sales. Advertising-sales ratios are usually expressed as percentages of advertising to sales. In the chapter on expenses, many figures were presented showing the percentages of advertising to sales as found in various classes of retail stores and of departments within department stores. More specific ratios are properly required by many store managers, based on the direct sales effects expected from the use of advertising. Thus while the relation of total advertising to total sales in a store may be from 2% to 3%, the actual percentage relation of advertising to sales of the goods advertised is more frequently from 10% to 20%. Such figures serve both as standards and as guides to the use of advertising in retailing.

3. Another important use of the ratio of advertising to sales is in setting advertising appropriations. A policy commonly followed by successful retail executives is to apportion advertising appropriations to various departments, sections, and lines of goods in direct proportion to their sales possibilities. Thus a line of goods offering apparent opportunities for securing 10% of the entire volume of sales for the retail store may be accorded 10% of the entire advertising appropriation. There may, to be sure, be many exceptions necessary in carrying out this policy. The object here is merely to state the policy in general terms and to illustrate the use of advertising ratios as standards of operation.

4. Another commonly used operating ratio in retail practice is the apportionment of floor space and of display space to merchandise in proportion to their possibilities of yielding sales or, even more important, of net profits. This procedure was fully developed in preceding chapters.

5. Other ratios are used in the control and measurement of retail operations, such as the comparison of selling space with non-selling space in the utilization of the retail store building, and of the number of salespeople to the number of non-selling employees engaged in the concern. There are many other opportunities for the use of helpful operating ratios in retail practice. The foregoing are intended merely to serve as suggestions of some of these possibilities.



**The Use of Standards in the Measurement of Operating Trends.**—Business management aims at improvement wherever possible, in production and sales, in reduction of waste, in more economical use of capital, and in operating costs. Periodical operating statements reveal actual conditions upon these points. A comparison of results periodically recorded shows the trends of the business. One of the most effective uses of standards is checking trends. Quantity, cost, or ratio measures recorded continuously, serve effectively to indicate whether the details of operation are more or less efficiently performed.

Comparisons of results of current store operations are usually made with similar results for the same periods of time of last year or even with several preceding years. Such comparisons cover seasonal conditions that are generally alike. There is also the possibility of checking the operating trends during intervening periods of time. The main difficulties in carrying on continuous comparisons from one month to another is the great seasonal change occurring in most retail businesses. By simple statistical devices known to statisticians, such as the use of moving averages and cumulative totals, the seasonal trends may be eliminated and operating trends may be checked, compared, and studied from month to month.

**The Use of Tests Where More Formal Measures Cannot Be Applied.**—There is a wide variety of activities carried on in retail stores in which definite standards and formal measures are difficult to devise and equally difficult to apply. In such cases other tests may be used to determine what progress is

being made and to maintain operating efficiency at high levels. Such tests usually take the form of inspections or check-ups made periodically, generally without previous notice to department heads or employees whose departments are to be tested. The following are illustrations of this form of tests.

1. With employees who come in contact with the customers of the store, such as salespeople, elevator operators, delivery men, information clerks, and department or section managers, such qualities as appearance, neatness, courtesy, ability to give intelligent information, and desire to be helpful to customers, are highly important. Clearly, no system of standards expressed in mathematical form, either in terms of quantities, costs, or ratios, could bring out the operating efficiency of employees in these items. Constant supervision and frequent inspections are the only possible methods by which to maintain high standards in these respects. Probably the best methods of check-up of these qualities in such employees is the use of rating systems by their immediate supervisors, giving specific attention and judgments to all qualities considered necessary. Such rating systems were described in a preceding chapter. Some retail stores, however, go further. They do not merely require periodical ratings from supervisors and department heads, but obtain additional, impartial inspections by the employment of expert service shoppers or others competent to assess the store's employees' attitudes and effects on customers. Such service shoppers come into the store unknown to the employees, observe carefully, and then write full reports of their impressions of the persons and service observed.

2. Carelessness in weighing and measuring goods as they are sold is a general source of considerable loss to retail stores. There appears to be no remedy for this other than careful supervision and frequent periodical check-up. Some drygoods stores make the practice of intercepting at least 100 packages containing measured goods per month, opening them, measuring the contents carefully, and then tracing mistakes in measurement to the salespeople responsible. This check-up is followed by training of the employees. If training fails to effect improvement, transfer to other departments or dismissal follows.



3. The time taken in retail stores to authorize charges and to make change is a serious matter. Much thought has been given to the reduction of this time as far as possible. To insure wide-awake, speedy attention to every transaction, some stores apply stop-watch tests at unannounced times amounting perhaps to 50 tests a month from different parts of the store. The average length of time for change making under modern conditions should not exceed one minute. The lapse of greater lengths of time should result in further investigation of the causes and of correction.

4. Parcel wrapping may seem to be one of the simplest and most elementary operations carried on within a retail store but there are wide differences in the way parcels are wrapped which in turn affect the consumer's satisfaction or irritation toward the store. Tests of wrapping are usually made by comparisons with packages wrapped in a standard or model way and with packages collected from other stores. Such comparisons take account not only of the appearance and neatness of packages but also of the kind and amount of wrapping materials used. A check-up of wrapping methods or ordinary packages at least monthly may be considered worth while.

The necessity for attention to proper packing becomes of increasing importance in connection with the wrapping and boxing of gifts. Tests such as just described are particularly necessary at the opening of and during the holiday seasons. At these times much new help is employed and new wrappers may need more attention than the regular wrapping employees.

5. A frequent source of annoyance and irritation to customers is the failure of retail stores to fulfil their promises of performance within the time limits set by their employees. Promises to secure special merchandise, to make deliveries, to

complete alterations, or to grant some special service, are common points at which such failures occur. Records should be maintained in every retail store of every promise made to customers and these records should be inspected at least monthly to determine the store's performances against these promises.

6. Another point of contact of the retail store with its customers is its telephone system. Frequent daily tests made both from outside of the store and within the store to insure that the telephone service may always be prompt, courteous, and intelligent should be carried on. As a part of these tests, the telephone operators may be checked on their knowledge of the location of goods within the store and on how to handle customers' inquiries involving special difficulties. At least one metropolitan department store makes an average of 20 such tests per day and finds that this constitutes a necessary, basic method of inspection to insure first-class telephone service.

7. The honesty of employees is a matter for careful supervision. The tests are usually made by outside concerns and ordinarily about twice a year.

8. Housekeeping, the appearance of the store, its cleanliness, orderliness, and freedom from wastes of various kinds, is another subject for frequent store inspection and check-up. Sharp-eyed, frequent supervision on the part of executives is undoubtedly the surest method of securing effective results in these respects. A method of inspection of housekeeping used in some department stores is to have a monthly survey from roof to cellar made by a committee of store people, including in its membership those known to be most thoroughly critical on such matters. This committee visits each department of the store monthly, at times unannounced in advance, makes notes and, finally, a formal report on all matters needing improvement. The details of the report are next made the subject of executive attention for all departments affected.

9. Correspondence, letters going out from the store both to resources and to customers and, particularly, the latter, offer



opportunities of contact which may on the one hand add materially to the store's goodwill if properly handled, or cause much dissatisfaction if badly written. The proper qualities in correspondence are attained and maintained in some stores by a monthly check-up of a fair proportion of all letters going out. Such letters are usually read by some executive in the store who has a well-developed sense of the necessities of business correspondence. In a few instances, large retail stores have found it profitable to employ professional correspondence critics who give their entire time to the reading of letter carbon copies emanating from all parts of the store and in pointing out methods of improvement.

10. The most modern retail stores have definitely adopted methods of keeping accurate records of every complaint and every return of goods together with the reasons. Executive check-up of complaints and returns usually takes the form of a required periodical report which indicates not only the number of such cases but also their character, the lines of goods involved, the adjustments made, and comparisons with preceding periods. This report serves as the basis of information upon which the store may rebuild its merchandising and service policies so as to reduce the number or to keep the number of complaints and of returns within reasonable bounds.

11. Retail stores handling lines of merchandise requiring alterations find it not only profitable but necessary to maintain a constant record with periodical reports of such alterations indicating the types of merchandise affected, the kinds of alterations required, the costs of such alterations, and comparisons with previous periods. Through the accurate follow-up on information of this sort, buyers for the departments affected may in some cases be guided in making their purchases on goods of qualities, sizes, and descriptions which in turn require less alteration service.

12. Errors made by salespeople and other employees are a constant source of difficulty which can never be entirely elimi-

nated but which, under proper supervision and inspection, may be reduced materially. A careful record of errors, their sources, their nature, followed by steps or precautions to reduce or eliminate them, are valuable for every retail store.

**The Need for Thorough, Periodical Surveys or Audits of Retail Store Operations.**—Most retail executives now recognize the need for careful accounting with periodical statements showing the financial status and progress of the business. To insure the accuracy of such accounting, there has developed the profession of public accountancy whose main function is to survey the accounting methods and results of private concerns and report upon their accuracy. Such accounting surveys are known as audits. The attest of the accuracy of accounting records made by a public accountant is generally accepted not only by the owners or stockholders of the business concern but also by its bankers and creditors. In addition, however, to the function of attesting to the accuracy of the records, most businesses have come to recognize the great value of the public accountant's audit for other purposes, such as the suggestion of better accounting methods leading to greater accounting efficiency. The profession of public accountancy has not only justified itself in testing the accuracy of private business records but also in pointing the way to better accounting.

Another form of periodical survey now commonly employed in most retail businesses is the merchandise inventory taken annually, semiannually, or even more frequently. The merchandise inventory, like the accountant's audit, reveals the status and progress made with the retail store's investments in merchandise. The merchandise inventory, when properly taken, is essentially a merchandise audit. When coupled with the records of purchases and sales for a preceding period, the final merchandise report may be made to show not only the present merchandise situation but also the movement of merchandise through the store during the preceding period.



Similarly, an inventory of the store's supplies, which is usually made at the time of the regular merchandise inventory, may be considered as the audit of the store's expenses in this line.

The value of these periodical examinations or surveys of the status and progress of the store in its finances, in its merchandise, and in its supplies, suggests other profitable applications.

During recent years, many large retail stores have experimented with a periodical review—usually semiannually—of the personnel situation in the store. This review has been termed a personnel audit. Though the problem of personnel management is intensified to some degree in proportion to the number of employees, the value of a periodical check-up of employees is not to be underestimated for smaller retail concerns. The retail store with only 3 or 4 employees might profit from the methods of the comprehensive personnel audit even if not carried out in the formal way practiced in chain and department stores.

The personnel audit is a complete examination of the relations of the store to its employees, including an inventory, a balance sheet and operating statement expressed not in dollars but rather in terms of employees and their productiveness for the store. A personnel audit like a merchandise inventory or audit usually classifies all of its information, or at least as much of it as possible, by departments and even sections. It usually also includes detailed figures and information on every employee.

The personnel audit has not been reduced to the standard practice as to methods and content such as prevail in accounting audits carried on by public accountants. Wide variations prevail. It is possible, however, to indicate in a general way some of the details of information that have been found highly practical and useful and should therefore be considered a part

of this type of survey. Among such items of information are the following:

1. Total number of employees on the payroll classified according to major divisions, departments, and lines of work. Other classifications of employees are frequently made, such as between selling and non-selling employees, the number of regular full-time workers and part-time workers, and the number of contingent employees.
2. Number of days of employment calculated for the same divisions and classifications as above.
3. Salaries and wages classified as above.
4. Average salary per day classified as above.
5. Vacations showing the number receiving vacation allowances, the amount of such vacation allowances, and the number on vacation at the time the report is taken.
6. Amount of payments for overtime in the form of wages, supper money, and so forth.
7. Number of sales transactions for the entire store and by departments and sections.
8. Total amount of sales for the entire store classified by departments and sections.
9. Average amount of sales for the store by departments and sections.
10. Number of returns for entire store by departments and sections.
11. Amount of returns for the entire store by departments and sections.
12. Number of cases and amounts of tardiness for entire store by departments and sections.
13. Number of cases of absence, amount of time involved and reasons for absences for entire store by departments and sections.
14. Number and kinds of errors for entire store by departments and sections.
15. Number of promotions for entire store by department and sections.



16. Number and amount of salary increases for entire store by departments and sections.
17. Total number of employees hired during preceding period classified by types of jobs filled.
18. Total number of employees leaving, with reasons.
19. Rate of labor turnover with comparisons with preceding periods.
20. Total number of complaints classified by departments and by causes.
21. Total number and amount of returns of merchandise classified by departments and by causes.
22. Total number and classification of suggestions from employees.
23. Records of production, earnings, and ratings of individual employees. The ratings should be based on reports of supervisors and department heads together with service shopping reports. Comparisons with department standards and with preceding records and reports.
24. List of employees entitled to salary increases or promotions.
25. List of employees who have given unsatisfactory service, with statements of character of failure and reasons.
26. Personnel department operating expenses classified by types of expense and by ratios to or percentages of the number of employees handled and the volume of sales.

**A Survey of the Store's Relations with Its Customers.**—Another form of audit, which is still new to most retailers but which is likely to grow in popularity and which is certain to prove most valuable and necessary to the efficient operation of a retail business, is the periodical examination of the status and progress of the store in its relations with its customers.

The emergence of the idea that the consumer is an important factor in the success of retail store operation is certain to lead to more definite research in this field. Such research will probably take two distinct trends: first, in attempts to pre-

determine the probable wants of consumers in order that they may be more successfully served; and second, to check up the store's relations with its customers periodically in order to determine how effectively its policies of serving its trade are working. It is the latter to which the term, customer or consumer audit, may be applied.

Little has as yet been done in a thorough, systematic manner either in predetermining customers' wants and requirements or in testing a store's actual results in meeting such consumer wants. Efforts in both fields have been largely experimental and centered on details rather than comprehensive and general.

The following suggestions indicate some of the possible lines of inquiry on the store's relations with its customers which might profitably be surveyed and studied at least once a year.

1. Distribution of the store's customers. Almost every retail store manager, no matter what the type of business or size of store, would probably find a map of the community in which his store is located, spotted to show the location of his customers, very illuminating and helpful. The information gained from this map could be used in determining the store's logical field of growth. If the map also indicates the proportions of the store's actual customers to the total number of prospective customers in each section represented, it would still be more helpful. The map might also indicate the distribution of the trade of competing establishments so that the localities of particular strength for each and the localities in which the battle of competition is keenest, could be clearly visualized.

The study of the distribution of the customers of a retail store needs to be supplemented by information as to the character, the standards of living, and the buying habits of the people, including both the store's clientele and the other people within the same territory who are not customers of the store. From this type of information the store manager may determine whether the store, the merchandise handled, and the service rendered, are what his community really wants.



2. Another fundamental line of inquiry which might profitably be undertaken as a part of the customer audit is the determination of why the store's present customers give their trade to the store and, similarly, why others within the same territory do not trade with the store. Such information may be secured by sending out properly trained shoppers, canvassers, or investigators to visit the people in their homes and to find out at first hand how they feel toward the retail stores. These visitors may also help to create an impression of goodwill that may result in increased trade for the store making the study. Many studies of this kind have paid for themselves in increased patronage resulting directly from such visits. The main purpose, however, of such direct, house-to-house consumer studies is to procure the information needed to change or to reinforce the operating methods of the store. Retail store owners and executives as well as department heads would find it to their direct advantage to set aside a definite portion of time each season for making personal contacts with as many different types of customers of the store, both actual and prospective, as possible. Such close periodical contact with the consuming trade is a necessary part of the equipment of every retail store executive.

Obtaining information by personal visits may be supplemented to some extent by mail inquiries, particularly if sent out as personal letters from the owner or head of the store to customers, inviting them to describe their experiences with the store and to indicate any reasons that may be in their minds for trading elsewhere.

The attitudes of consumers toward their retail stores account for the success or failure of those stores. The study of these attitudes and the determination of what steps to be taken to strengthen favorable attitudes and to change harmful attitudes, constitutes one of the most serious and important projects

that lie before the retailer of the future. The customer audit must take due account of the goodwill, of the indifference, and of the ill-will of the store. Goodwill has a definite asset value recognized by all accountants. Indifference and ill-will are just as real and just as potent as goodwill, and constitute definite liabilities of the retail store. The first step toward the elimination of ill-will is to determine its existence, its nature and extent. That is a function of the customer audit.

3. Another line of inquiry into the store's relations with its customers that has been found profitable not only as a means of revealing the weaknesses of the store's methods and merchandise but also as a means of recovering lost trade, is the intensive check-up of reasons given by customers for transferring their trade to other retail institutions. Errors of employees, store carelessness or indifference, mistaken policies, wrong types of merchandise, and similar reasons are uncovered, which, when corrected, not only help to bring back the customers who have transferred their trade elsewhere but to cement the relationship between the store and its present customers. An analysis of why customers are lost, when classified by causes and by departments, may be made the basis of establishing improvements of lasting consequence to the store.

4. Of the number of people who pass the store, how many actually stop to look at the window displays and how many actually enter the store? A careful count of passers-by constitutes one of the most elementary methods of determining the value of a location. A periodical check-up of passers-by in relation to the sales trends of the store should be one of the means by which the store's owners may determine whether they are getting the full value out of their location. A decline in the ratio of the number of passers-by who actually enter the store should be looked upon as a danger signal.

5. What types of advertising and of display appeal to and attract customers to the store? What are the forms of competitive publicity, merchandise, and service which apparently



attract consumers most successfully? What is the response of customers to the various forms of publicity used by the store? These are questions for inclusion in the customer audit. The accuracy with which these questions can be answered determines the effectiveness of expenditures for publicity as well as the progress in expanding the store's trade.

6. Of the number of people who come into the store, how many are actually sold and how many merely look around and then leave without buying? It will no longer do, in most communities, to apply any form of sales pressure intended to force customers who enter the store to buy goods. Sales pressure invariably arouses sales resistance. The business of the store, however, is to sell goods to those who come in. A very definite measure of the store's efficiency is the ratio of its sales to the total number who enter. Undoubtedly, many who enter a store have no intention of buying and merely desire to see what the store has to offer. Comparative shopping is a growing custom among consumers. No store can hope to sell its goods to all who come in. In spite of these obvious facts, it is clear that a large proportion of the people who leave the store without buying represent the failures of the store. A periodical count of people entering the store compared with the actual number of sales made during the same intervals of time will show the trend of the store's sales appeal to those who actually come to it. A declining ratio of number of sales to number of callers should stir the store's executives to determine the reasons.

7. Another highly important factor in the relation of a store to its customers is the number of departments patronized by each. The experience of food stores is that among their customers some purchase only fruits and vegetables, others purchase only groceries, still others purchase only meats. Their requirements in other lines are purchased in other shops. Similarly, many customers of men's clothing stores tend to buy only suits or overcoats and buy their furnishings and other needs in other places.

This situation occurs oftener in department stores than in other types of retail institutions. An analysis of the store's relations with its customers should determine for each what lines of goods are regularly purchased and what lines are bought elsewhere and the reasons. Many retail stores carrying on aggressive sales and advertising campaigns to increase the number of their customers might find a much more profitable increase in their business if they could but induce their present customers to buy their requirements in additional lines and departments within the store. A customer audit such as described here should show the extent of the retail store's failure to sell to its customers from all departments. An analysis of the reasons for these failures could not but be useful in reorganizing the policies and methods of the departments so as to serve the store's customers more completely.

**Research in Retailing.**—The merchant who has spent many years in the retail trade and who has kept fully informed of the struggles, the failures and triumphs of the trade as a whole, must be impressed both with the changing character of the problems and the progress made in retail methods during recent years. Any comparison of retailing of today with the retail business of a generation ago will show that marked advances have been made in goods handled, in services rendered, and in methods of operation. Despite the progress made in the past, a close view of present-day retailing reveals the existence of impressive problems not yet solved. Whatever gains that may have been made in the past, it is clear that the necessities of the present and of the future point to even greater developments in the future of retailing.

In general, the lines along which improvements in retailing are now most needed are: (1) a more intimate and detailed knowledge about consumers and their changing wants; (2) a healthier and more constructive relationship with competitors; (3) a great deal more specific information about the physical



requirements of retail stores to make them serve the functions of satisfactory distributing machines; (4) an improvement in employer-employee relationships that will result, on the one hand, in better paid and better satisfied employees, and on the other, in greater individual initiative and more intelligent performance of the work of the store.

There are two approaches to improvements in these lines. One is through the method of "trial and error," of "cut and try," or unsystematic, individual experimentation. The other is through organized research conducted in a scientific way. The latter, if properly conducted, may be used to short-cut the former in time, energy, and expense. Effective research in retailing, as elsewhere, depends upon well-defined, specific objectives, thorough collection of facts, competent interpretation, and practical application.

In the earlier stages of retailing, the individual methods of study and of trial and error were sufficient. Ordinary intelligence coupled with diligence led to practical solutions of the everyday problems of the business. Present-day problems of retailing lie largely outside of the store, as for example, in determining the nature and changes of consumer demand and in finding a more constructive basis of relationship with competitors. Even the internal problems of the store, of equipment and personnel, of merchandising and service, of the conservation of capital and the reduction of expense and waste, can probably best be studied by comparisons with the results obtained by dealers elsewhere.

The functions of research are to assist in solving these problems, and as such has a place in greater or lesser degree in every type of retail institution. The owner of a small store who struggles with the difficulties at his hand and the research staff aiding the executives of a gigantic chain store system are engaged in identical processes. It is obvious that the staff of experts employed by the chain system who give their entire time and energy to the study of specific problems are likely to

make more rapid progress in the solution of those problems than the struggling individual independent retailer.

Independent retailers may best be served in their research requirements through the establishment of cooperative research groups and through trade associations with specific research objects. Whether independent retailers, as a class, will be wise enough and alert enough to form alliances combining sufficient power to employ scientific research in the solution of their problems remains to be seen.

Finally, information once acquired and put into practice now travels very rapidly. Open-minded retailers lose very little time in appraising, modifying, and applying new methods resulting from research in other organizations. There is enough community of interest among retail institutions of various kinds and sizes and there should be enough common desire to permit of wide cooperation in the establishment and proper endowment of cooperative research comparable to the work already done in several manufacturing and producing industries both in this country and abroad.

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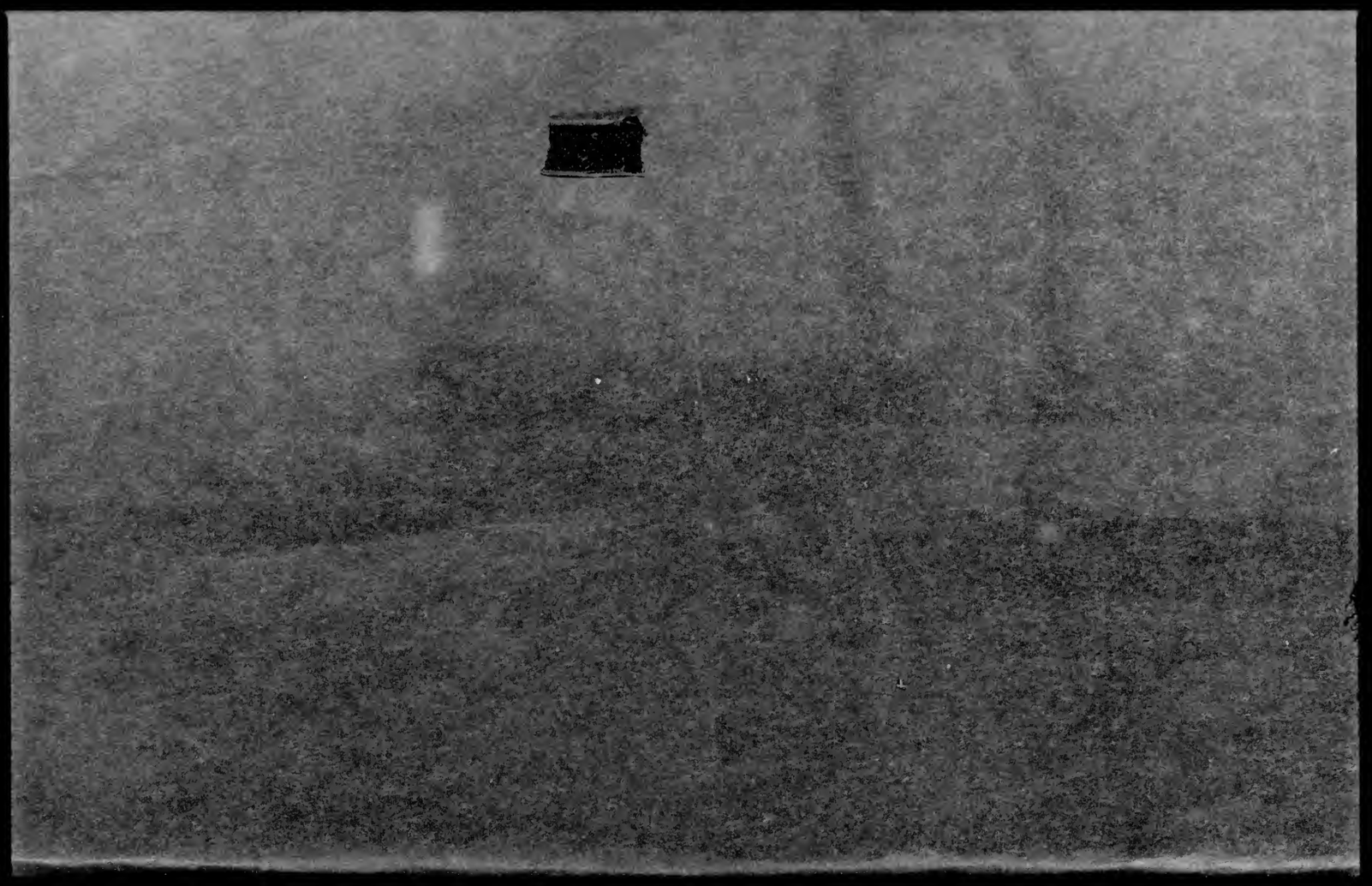

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